



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

Public Disclosure

August 24, 2005

**Community Reinvestment Act  
Performance Evaluation**

**The Quakertown National Bank  
Charter Number: 2366**

**15 North Third Street  
Quakertown, PA 18951**

**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, and should not 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.*

## Table of Contents

<b>OVERALL CRA RATING .....</b>	<b>2</b>
<b>DEFINITIONS AND COMMON ABBREVIATIONS.....</b>	<b>3</b>
<b>DESCRIPTION OF INSTITUTION.....</b>	<b>7</b>
<b>SCOPE OF THE EVALUATION.....</b>	<b>8</b>
<b>FAIR LENDING REVIEW.....</b>	<b>11</b>
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS.....</b>	<b>12</b>
LENDING TEST .....	12
INVESTMENT TEST.....	18
SERVICE TEST .....	19
<b>APPENDIX A: SCOPE OF EXAMINATION .....</b>	<b>A-1</b>
<b>APPENDIX B: MARKET PROFILES FOR FULL-SCOPE AREAS .....</b>	<b>B-1</b>
<b>APPENDIX C: TABLES OF PERFORMANCE DATA .....</b>	<b>C-1</b>

## Overall CRA Rating

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

The following table indicates the performance level of **The Quakertown National Bank** with respect to the Lending, Investment, and Service Tests:

Performance Levels	The Quakertown National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory			X
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

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

The major factors that support this rating include:

- Lending levels reflect excellent responsiveness to the credit needs of the assessment area.
- The distribution of loans to borrowers of different income levels is excellent.
- Market share data for home improvement and home mortgage refinance lending is excellent and positively impacted the lending test rating.
- A high percentage of loans were originated in the assessment area.
- Community development loans positively impacted the lending test rating.
- Qualified investments, grants, and donations reflect an adequate responsiveness to the affordable housing needs of the assessment area.
- Banking services are accessible to individuals of different income levels and to essentially all portions of the assessment area. The new supermarket branch improved accessibility of delivery systems for individuals of different income levels.
- Bank employees provide an adequate level of community development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

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

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level 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.

**Metropolitan Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an

employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

## Description of Institution

The Quakertown National Bank (QNB) is a \$580 million institution headquartered in Quakertown, Pennsylvania. QNB is a wholly owned subsidiary of QNB Corp., a one-bank holding company, also headquartered in Quakertown, PA. The bank has no operating subsidiaries, and there has been no merger or acquisition activity during the evaluation period.

QNB is an intrastate community bank that offers a wide array of loan and deposit products to consumers and commercial businesses. There are a total of eight full service branches. Seven branches are located in Bucks and Montgomery Counties and one branch is located in Lehigh County. All branch locations are equipped with automated teller machines (ATMs) and seven of the offices have drive-through facilities. Extended weekday and Saturday hours are available at all branch locations and Sunday hours are available at the supermarket branch. Since the last evaluation period, QNB has not closed any branches and has opened one supermarket branch.

As of December 31, 2004, QNB had net loans of \$268 million or 46% of total assets. The composition of the loan portfolio consists of residential real estate loans at 38%, commercial real estate loans at 36%, commercial and industrial loans at 17%, other loans at 5%, construction and development loans at 3%, and consumer loans at 2%. A majority of mortgage originations are sold to the Federal Home Loan Mortgage Corporation. During 2002, 2003, and 2004, the bank sold \$29 million, \$41 million, and \$8 million, respectively, in residential mortgage loans. Net tier one capital was \$40 million as of December 31, 2004.

QNB's competition comes from branches of large national and regional financial institutions as well as large local community banks. Based on the June 30, 2004 deposit data, QNB's major competitors are Univest National Bank, NA (19.64% market share and 15 offices), Harleysville National Bank (17.70%% market share and 9 offices), First Savings Bank of Perkasie (15.95% market share with 8 offices), and Wachovia Bank, NA (8.03% market share and 9 offices).

There are no legal, financial or other factors impeding the bank's ability to help meet the credit needs of its assessment area (AA).

QNB's previous CRA examination was conducted as of February 25, 2002 and the bank was assigned an overall rating of "Satisfactory."



## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The evaluation period for the Lending Test, with the exception of community development (CD) loans, consists of three distinct time periods: January 1, 2002 through December 31, 2002 (2002 evaluation period); January 1, 2003 through December 31, 2003 (2003 evaluation period); and, January 1, 2004 through December 31, 2004 (2004 evaluation period). The first time period is evaluated using 1990 Census demographic information, and the second uses 2000 Census demographic information. The third time period uses 2000 Census demographic information updated in 2004 to reflect new Office of Management and Budget (OMB) MSA definitions and boundaries.

Conclusions regarding the bank's lending performance are based on home mortgage loans, small loans to businesses, and consumer loans. QNB requested we consider consumer lending because of their strong performance in lending to low-and moderate-income borrowers. There were no multifamily loans and there were a minimal number of small loans to farms; therefore, these two loan types were not evaluated.

For the CD loans and the Investment and Service Tests, the evaluation period is February 26, 2002 through August 24, 2005. The investment test included a review of investments, grants, and donations made in the bank's AA that meet the definition of community development. The Service Test included a review of retail and community development services provided in the bank's AA.

Aggregate data to determine market share during 2004 was not available for review and therefore, a market analysis was not used in the analysis of the bank's lending in 2004.

### Data Integrity

We reviewed the accuracy of the bank's HMDA records and CRA data collection of business loans. Based on our testing, we detected some inaccuracies in the HMDA records; however, the level of these inaccuracies did not diminish the credibility of HMDA submissions. We detected errors in the CRA data collected on small business loans. Management promptly addressed and corrected its prior submissions. We used the corrected CRA data in the completion of this evaluation.

Community Development (CD) loans, investments and services submitted by management were also verified to ensure that they met the regulatory definition for community development.

## Selection of Areas for Full-Scope Review

OMB's revised *Standards for Defining Metropolitan and Micropolitan Areas*, introduced in February 2004, did not result in any new MSAs, and no new metropolitan divisions (MDs) were created in the AA. However, it is important to note that the MSA identification numbers did change. The Philadelphia MSA 6160 was changed to the Philadelphia MD 37964. The Allentown-Bethlehem-Easton PA, MSA 240 was changed to the Allentown-Bethlehem-Easton, PA-NJ MSA 10900. The Reading PA MSA 6680 was changed to the Reading, PA MSA 39740.

We conducted a full scope review of QNB's one assessment area (AA), which covers parts of the three MSAs/MDs mentioned above. The bank has specified only one assessment area because the small number of census tracts located in MSA 10900 and MSA 39740 do not extend substantially beyond the border of the Philadelphia MD 37964, the bank's main office and seven of the eight branch locations are located within the Philadelphia MD, and the vast majority of QNB's business is generated within the Philadelphia MD. QNB's assessment area complies with regulatory requirements and does not arbitrarily exclude low- and moderate-income areas.

Please refer to Appendix B for market profiles and other information on the AA based on the 1990 Census, 2000 Census and updated 2000 Census.

## Ratings

The bank's overall rating is based on the full-scope review of its one AA. The Lending Test was rated more heavily than the Investment or Service Test. Home mortgage loans received more weight in determining the Lending Test rating since QNB originated a greater number of mortgage loans (45%) than consumer loans (30%) and small loans to businesses (25%) during the evaluation period. In particular, we place more weight on home refinance and home improvement lending, as these comprised 62% and 30%, respectively, of all originated home mortgage loans. Greater weight is given to borrower distribution in evaluating the bank's lending performance given the lack of low- and moderate-income geographies in the AA. Additionally, community development lending received positive consideration in arriving at the lending test rating.

QNB requested we consider consumer lending because of their strong performance in lending to low-and moderate-income borrowers.

## Other

We made two community contacts in conjunction with this examination. Our discussions occurred via the telephone and provided us with detailed and informative data regarding the credit needs of the community. We ascertained that there is a lack of affordable housing, including rental units, for low- and moderate-income individuals. We also determined that small business credit needs are generally being met through various avenues and programs.

One contact was a non-profit organization whose mission is to rehabilitate and construct affordable housing for low- and moderate-income individuals and families and to assist low- and moderate-income individuals and families purchase affordable housing in Bucks County. QNB was praised for being a leader among area banks in providing financing, volunteering, and helping to meet the affordable housing needs in Bucks County. This contact also advised that there are opportunities for larger financial institutions in the area; however, they receive limited support from them. The other contact was a non-profit organization that assists small businesses. This contact stated QNB is one of their prime supporters in helping to address the credit needs of small businesses in the area.

## **Fair Lending or Other Illegal Credit Practices Review**

*We found no evidence of illegal discrimination or other illegal credit practices.*

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the Lending Test is rated "Outstanding." Based on the full-scope review, the bank's performance in the AA is excellent.

#### Lending Activity

Refer to Tables 1 Lending Volume and 1 Other in appendix C for the facts and data used to evaluate the bank's lending activity.

QNBs lending activity is excellent and lending levels reflect an excellent responsiveness to the credit needs in the AA when considering the high level of competition from larger, nationwide and regional lenders.

QNB had a 12.28% deposit market share as of June 30, 2004, ranking it 4<sup>th</sup> among financial institutions in the AA. The top three institutions are: Univest National Bank, NA, Harleysville National Bank, and First Savings Bank of Perkasie. In addition, QNB faces competition from larger local, regional, and national banks including Wachovia Bank, NA, Harleysville Savings Bank, Sovereign Bank and National Penn Bank.

#### *Home Mortgage Loans*

Among home mortgage originations, approximately 62% were home mortgage refinance, 30% were home improvement, and 7% were home purchase.

The 2002 market share data for all mortgage data indicates QNB ranks 8th out of 384 lenders with a market share of 3.24%. The 2003 market share data for all mortgage data indicates QNB ranks 8th out of 446 lenders with a market share of 3.02%. Although this is below the bank's deposit market share, QNB's mortgage lending penetration is excellent given the number of lenders in the AA and the majority of lenders ranked above QNB are larger, nationwide lenders.

Based on the 2002 HMDA aggregate data, QNB ranked 31st out of 247 lenders in the AA with a .83% market share in home purchase lending. The 2003 HMDA aggregate data indicates QNB ranked 32nd out of 266 lenders in the AA with a .74% market share. This performance is considered good considering the competition and the number of larger, nationwide mortgage lenders in the AA.

According to the 2002 HMDA aggregate data, QNB ranked 5th out of 102 lenders in the AA with an 8.99% market share in home improvement lending. The 2003 HMDA aggregate data indicates QNB ranked 4<sup>th</sup> out of 115 lenders in the AA with an 8.61 % market share. This performance is considered excellent.

Based on the 2002 HMDA aggregate data, QNB ranked 7th out of 328 lenders in the AA with a 3.41% market share in home refinance lending. The 2003 HMDA aggregate data indicates QNB ranked 7th out of 387 lenders in the AA with a 3.09% market share. This performance is considered excellent when considering their competition with larger, nationwide mortgage lenders.

### ***Small Loans to businesses***

According to the 2002 CRA aggregating data, QNB ranked 18th out of 165 lenders with a market share of .73%. Based on the 2003 CRA aggregating data, QNB ranked 19<sup>th</sup> out of 180 lenders with a market share of .74%. Although this is below the bank's deposit market share, QNB's performance is considered good when considering the dominance of larger lenders, particularly credit card companies, who originate small loans to businesses.

### **Distribution of Loans by Income Level of the Geography**

There are no low- or moderate-income geographies in the bank's AA. Therefore, an analysis of the Distribution of Loans by Income Level of the Geography would not be meaningful.

### **Lending Gap Analysis**

Our review of the geographic distribution of loans did not detect any conspicuous or unexplained gaps in lending patterns.

### ***Inside/Outside Ratio***

QNB originates a high percentage of loans in its assessment area. During the evaluation period, 87.11% of the number and 83% of the dollar amount of total HMDA originations were within the bank's assessment area. The number and dollar amount of loans originated in the assessment area during the evaluation period by the product types are as follows: 68.11% of the number and 68.62% of the dollar amount of home purchase loans, 92.98% of the number and 94.12% of the dollar amount of home improvement loans, 87.24% of the number and 83.64% of the dollar amount of home refinance loans. Regarding small loans to businesses, 84.68% of the number and 79.98% of the dollar amount of total originations were within the assessment area. Regarding consumer loans, 78% of the number and 83% of the dollar amount of total originations were within the assessment area.

## **Distribution of Loans by Income Level of the Borrower**

The overall borrower distribution of home mortgage loans is excellent given the strong competition from significantly larger institutions, the limited lending opportunities for low-and moderate-income borrowers, and the bank's market share ranking in home improvement and home refinance lending.

Home mortgage loan distribution is excellent when considering the affordability of homeownership for a low-income individual or family living in the AA. Based on the 1990 Census data, the average median housing cost for the area was \$139 thousand and a low-income individual earned less than \$31 thousand according to the 2002 updated median family income for the AA. Based on the 2000 Census data, the average median housing cost for the area was \$163 thousand and a low-income individual earned less than \$34 thousand according to the 2004 updated median family income for the AA. In addition, 4% of the households within the AA are below the poverty level and are considered very low income.

### ***Home Mortgage Loans***

Refer to Tables 8, 9, and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

### ***Home Purchase Lending***

Borrower distribution of home purchase loan originations is excellent.

For the 2002 evaluation period, the percentage of loans originated to low-income borrowers is below the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For both the 2003 and 2004 evaluation periods, the percentage of loans originated to low-income borrowers exceeds the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For both the 2002 and 2003 evaluation periods, QNB's market share of home purchase loans to low-income borrowers exceeds its overall market share, and to moderate-income borrowers is close to its overall market share.

***Home Improvement Lending***

Borrower distribution of home improvement loan originations is excellent.

For the 2002 evaluation period, the percentage of loans originated to low-income borrowers is below the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For both the 2003 and 2004 evaluation periods, the percentage of loans originated to low-income borrowers exceeds the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For the 2002 evaluation period, QNB's market share of home improvement loans to low-income borrowers exceeds its overall market share, and to moderate-income borrowers greatly exceeds its overall market share. According to the 2002 peer mortgage data, QNB is ranked 3<sup>rd</sup> out of 30 lenders with a market share of 11.68% in home improvement lending to low-income borrowers and is ranked 3<sup>rd</sup> out of 49 lenders with a market share of 13.83% in home improvement lending to moderate-income borrowers.

For the 2003 evaluation period, QNB's market share of home improvement loans to low-income borrowers greatly exceeds its overall market share, and to moderate-income borrowers exceeds its overall market share. According to the 2003 peer mortgage data, QNB is ranked 3<sup>rd</sup> out of 33 lenders with a market share of 14.29% in home improvement lending to low-income borrowers and is ranked 3<sup>rd</sup> out of 56 lenders with a market share of 9.27% in home improvement lending to moderate-income borrowers.

***Home Refinance Lending***

Borrower distribution of home mortgage refinance loan originations is excellent.

For the 2002 evaluation period, the percentage of loans originated to low-income borrowers is below the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For both the 2003 and 2004 evaluation periods, the percentage of loans originated to low-income borrowers exceeds the percentage of low-income families in the AA, and the percentage of loans originated to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

For the 2002 evaluation period, QNB's market share of home refinance loans to low-income borrowers greatly exceeds its overall market share, and to moderate-income borrowers exceeds its overall market share. According to the 2002 peer mortgage data, QNB is ranked 1<sup>st</sup> out of 110 lenders with a market share of 9.09% in home refinance lending to low-income borrowers and is ranked 3<sup>rd</sup> out of 178 lenders with a market share of 4.90% in home refinance lending to moderate-income borrowers.



For the 2003 evaluation period, QNB's market share of home refinance loans to low-income borrowers greatly exceeds its overall market share, and to moderate-income borrowers exceeds its overall market share. According to the 2003 peer mortgage data, QNB is ranked 1<sup>st</sup> out of 145 lenders in the AA with a market share of 9.75% in home refinance lending to low-income borrowers and is ranked 5<sup>th</sup> out of 241 lenders in the AA with a market share of 3.79% in home refinance lending to moderate-income borrowers.

### ***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination/purchase of small loans to businesses.

The distribution of small loans to businesses is good when considering the distribution by size of loan, the strong competition from larger, nationwide lenders that offer small business credit cards, and the bank's market share.

The percentage of small loans to small businesses (businesses with gross annual revenues of \$1 million or less) is below the percentage of small businesses in the AA for the 2002 and 2004 evaluation periods, and exceeds the percentage of small businesses in the AA for the 2003 evaluation period. QNB's market share of lending to small businesses exceeds its overall market share for both the 2002 and 2003 evaluation periods.

Using the size of the loan as a proxy for the size of the business further supports QNB's distribution of small loans to businesses is good. Approximately 72%, 70%, and 66% of the small loans to businesses in the 2002, 2003, and 2004 evaluation periods, respectively, are for amounts of \$100 thousand or less.

### ***Small Loans to Farms***

QNB did not originate small loans to farms during the evaluation period. Agricultural lending is not a primary product line for the bank.

### ***Consumer Loans***

Refer to Table 13 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's consumer loan originations and purchases.

Borrower distribution of consumer loan originations is excellent. For each evaluation period, the percentage of loans originated to low-income borrowers significantly exceeds the percentage of families in the AA, and the percentage of loans originated to moderate-income borrowers significantly exceeds the percentage of families in the AA. Market share data is not available for consumer loans.

## Community Development Lending

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending.

CD lending has a positive impact on the Lending Test rating. During the evaluation period, QNB originated 37 CD loans totaling approximately \$2.5 million. The bank's CD lending is responsive to the need for affordable housing for low- and moderate-income individuals and families within the AA.

QNB participates in and was a founding member of a multi-bank Community Development Corporation (CDC), which was formed in 1999. The CDC is directly involved in the financing of, and investment in, housing and redevelopment activities designed to address the needs of low- and moderate-income people throughout Montgomery and Bucks Counties. From February 2002 through August 2005, the CDC funds have supported 357 affordable housing units and numerous non-profit facilities. Loan commitments are received from member banks, who are then required to participate in each loan funded based upon the amount of their commitment. Member banks have committed a total of \$14.45 million in funding for three separate loan pools. QNB committed \$250 thousand for each of the three loan pools, for a total of \$750 thousand. During the evaluation period, 19 loans were originated with QNB's proportionate share totaling \$413 thousand.

QNB continues to be one of five banks participating in a county micro loan fund organized in 2000. The purpose of the fund is to address the business development and capital needs of start-up or existing businesses located in Upper Bucks County. The fund provides these small businesses, which may not have access to credit through traditional credit providers, the ability to obtain small loans under reasonable terms. QNB has committed \$50 thousand each year to this loan fund. During the evaluation period, the bank originated 17 loans totaling \$84 thousand.

In 2005, the bank made a \$2 million commitment to a non-profit organization whose mission is to eliminate substandard housing from Bucks County by constructing affordable housing for low- and moderate-income individuals and families. The funds will be used to construct 36 housing units targeted to low- and moderate-income first-time homebuyers. This is the second phase of a larger innovative project that was initiated in 2001. The first phase consisted of 37 housing units, of which, 25 were targeted to low- and moderate-income individuals and families and the remaining 12 units were sold on the open market. This was the first time this organization focused efforts on fulfilling the need for affordable housing in Upper Bucks County. Furthermore, the development of this project represents the first of its kind in the nation and serves as a model for future projects. QNB took a leadership role in this project and provided construction financing (no fees & reduced interest rate) for both phases of this project.

## **Product Innovation and Flexibility**

Product innovation and flexible lending activity had a neutral impact on the Lending Test.

QNB offers a flexible home purchase mortgage financing program designed to provide loans to the low- and moderate-income individuals and families who are purchasing an affordable home in conjunction with a local non-profit organization. The non-profit organization's mission is to eliminate substandard housing from Bucks County by constructing affordable housing for low-income individuals and families. During the evaluation period, QNB originated 5 affordable mortgage loans, totaling \$579 thousand, under this program.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Investment Test is rated "Low Satisfactory." Based on a full-scope review, the bank's performance in the AA is adequate.

Refer to Table 14 in appendix C for the facts and data used to evaluate the bank's level of qualified investments.

We determined through our community contacts and internal research that investment opportunities exist but are somewhat limited. This is largely due to the lack of any low- and moderate-income geographies in the AA. There are investment opportunities in terms of grants and donations to various non-profit organizations that serve housing needs and community service needs related to low- and moderate-income individuals and families.

QNB has an adequate level of qualified investments, grants, and donations and exhibited an adequate level of responsiveness to meeting the identified needs of the area. During the evaluation period, QNB made one qualifying investment totaling \$1.1 million. There is also one prior period investment with a current book value of \$65 thousand. There are no unfunded commitments outstanding. None of the investments are complex or innovative.

During the current evaluation period, QNB purchased one mortgage-backed security for \$1.1 million. The mortgage loans were made to low- and moderate-income individuals residing in southeastern Pennsylvania, which includes a portion of the bank's AA.

In December 1995, QNB entered into an equity investment as part of a three-bank consortium to the Bucks County Housing Development Authority (BCHDA). The original amount of the investment was \$200 thousand. The project took over \$2 million and converted a former library into fifteen apartments. These apartments are rented to senior citizens who meet the HUD low-income guidelines. As of the examination date, the current book value of this investment is \$65 thousand. The investment continues to provide affordable housing for low- and moderate-income individuals.

During the evaluation period, QNB made 29 qualifying grants and donations totaling \$27 thousand to seven various organizations that provide affordable housing and community services to low-and moderate-income individuals and communities.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated "High Satisfactory." Based on our full-scope review, the bank's performance in the AA is good.

### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's branch delivery system and branch openings and closings.

Retail services are accessible to individuals of different income levels in the AA. Since there are no low- or moderate-income geographies, all low- and moderate-income individuals and families reside within middle- and upper-income geographies. All eight branches are located in middle-income geographies where approximately 64% of all low-income families reside and approximately 61% of all moderate-income families reside.

QNB's hours and services do not vary in any way that inconveniences low- and moderate-income individuals and families living within the AA. QNB operates eight full services branches. One of these is a supermarket branch that was opened during the evaluation period. All branch locations are equipped with automated teller machines (ATMs) and seven of the offices have drive-through facilities. Extended weekday and Saturday hours are available at all branch locations and Sunday hours are available at the supermarket branch. The new supermarket branch has improved the accessibility of QNB's delivery systems to low- and moderate-income individuals and families by offering extended hours during the week as well as extended hours on Saturday and Sunday. In addition, QNB extended their morning hours at the Country Square location to improve the accessibility of their services. A full line of traditional banking products and services are offered at all branches. No branches were closed during the evaluation period.

QNB offers alternative delivery systems including Internet, bank by mail, and telephone banking. However, no weight was placed on these other delivery services because a determination of the volume of use by low- and moderate-income individuals is unavailable.

## **Community Development Services**

QNB provides an adequate level of CD services within the assessment area. Seven bank officers and employees provide financial and technical expertise to five separate and qualified community organizations. Their community development services enhanced small business development and economic development as well as affordable housing targeted to low- and moderate-income individuals and families. All of the services provided targeted the identified needs of the AA. The following is a list of CD services that were provided during the evaluation period.

QNB's president provides financial and technical expertise by serving on the Advisory Board of Directors for a non-profit organization that provides affordable housing for low- and moderate-income individuals and families.

One officer provides financial and technical expertise by serving on the loan committee that administers a local Micro Loan Fund. The purpose of the Micro Loan Fund is to address the business development and capital needs of start-up or existing businesses located in Upper Bucks County.

An executive officer and a senior loan officer provide financial expertise by serving on the Board of Directors and loan committee, respectively, for a local Community Development Corporation. This organization promotes and facilitates community revitalization through housing and community development activities benefiting low- and moderate- income individuals and geographies.

A senior loan officer provides financial expertise in their role as Director and Secretary to a revitalization organization that helps small businesses.

The senior loan officer as well as various commercial loan officers provides financial and technical expertise to small businesses by participating on a local Small Business Counseling Panel.

The senior loan officer provides financial and technical expertise by serving as the chairperson of a fundraising committee for a non-profit organization that provides affordable housing for low- and moderate-income individuals.

QNB also provides gratis loan servicing for the Micro Loan Fund and for the non-profit organization that provides affordable housing to low- and moderate-income individuals that were mentioned earlier.

QNB hosted a breakfast for area banks to learn about Habitat for Humanity's mission, to understand the affordable housing needs of the area, and to generate donations for Habitat for Humanity.

## Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and non-metropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): (01/01/02 to 12/31/04) Investment and Service Tests and CD Loans: (02/26/02 to 08/24/05)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
The Quakertown National Bank (QNB) Quakertown, PA	Home Purchase, Home Improvement, Home Refinance, Small Loans to Businesses, Consumer Loans, CD Loans, Investments, and Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
NA	NA	NA
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Includes portions of the Philadelphia MSA 6160 within the Philadelphia-Wilmington-Atlantic City CMSA, the Allentown-Bethlehem-Easton PA, MSA 240, and the Reading PA, MSA 6680, as defined by the 1990 Census and the 2000 Census  Includes portions of the Philadelphia MD 37964, the Allentown-Bethlehem-Easton, PA-NJ MSA 10900, and the Reading, PA MSA 39740, as defined by the 2000 Census updated in 2004 to reflect new Office of Management and Budget (OMB) MSA definitions and boundaries.	Full Scope	None

## Appendix B: Market Profiles for Full-Scope Areas

**QNB’s assessment area, which includes portions of the Philadelphia MSA 6160, the Allentown-Bethlehem-Easton, PA MSA 240, and the Reading PA MSA 6680, as defined by the 1990 Census.**

Demographic Information for Full-Scope Area: QNB’s assessment area, which includes portions of the Philadelphia MSA 6160, the Allentown-Bethlehem-Easton, PA MSA 240, and the Reading PA MSA 6680, as defined by the 1990 Census.						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	63	0.00	0.00	77.78	22.22	0.00
Population by Geography	224,317	0.00	0.00	74.79	25.21	0.00
Owner-Occupied Housing by Geography	62,126	0.00	0.00	73.28	26.72	0.00
Businesses by Geography	19,912	0.00	0.00	74.59	25.41	0.00
Farms by Geography	816	0.00	0.00	73.28	26.72	0.00
Family Distribution by Income Level	62,258	11.14	17.40	28.63	42.83	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	17,766	0.00	0.00	80.22	19.78	0.00
Median Family Income	= \$41,494			Median Housing Value	= \$139,215	
HUD Adjusted Median Family Income for 2002	= \$62,538			Unemployment Rate	= 4.8%	
Households Below the Poverty Level	=4.0%					

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 1990 U.S. Census, and 2002 HUD updated MFI.

The above chart reflects demographic information based on the 1990 Census information. QNB’s performance in 2002 is compared to this information.

Based on the 1990 Census information, the bank’s AA contained 63 contiguous census tracts (CTs), of which, 57 were located in Bucks and Montgomery County, which was part of the Philadelphia MSA 6160, 5 were located in Lehigh County, which was part of the Allentown-Bethlehem-Easton PA MSA 240, and 1 was located in Berks County, which was part of the Reading PA MSA 6680. There were 49 middle-income geographies and 15 upper-income geographies. There were no low- or moderate-income geographies. The 2000 Census resulted in changes to census tract income levels, as well as to other demographic information. These changes are presented and discussed in the next table.

The 1990 U.S. census reported the total population of the assessment area at 224,317. This population was comprised of 79,691 households and 62,258 families. There were 83,335 housing units, of which, 75% were owner-occupied housing, 21% were rental-occupied housing, and 4% were vacant housing. The median housing cost in the AA was 139,215.

The 1990 census combined MSA median family income was \$41,494 and the HUD adjusted median family income for 2002 was \$62,538. Approximately 11% of the families are low-income, 17% moderate-income, 29% middle-income, and 43% upper-income. In addition, 4% of households were below the poverty level.

According to the 2002 business demographics, there are a total of 19,912 businesses and 816 farms. Approximately 61% of the businesses reporting have revenues less than \$1 million and approximately 33% of the businesses did not report revenue.



**QNB’s assessment area, which includes portions of the Philadelphia MSA 6160, the Allentown-Bethlehem-Easton, PA MSA 240, and the Reading PA MSA 6680, as defined by the 2000 Census.**

Demographic Information for Full-Scope Area: QNB’s assessment area, which includes portions of the Philadelphia MSA 6160, the Allentown-Bethlehem-Easton, PA MSA 240, and the Reading PA MSA 6680, as defined by the 2000 Census.						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	65	0.00	0.00	69.23	30.77	0.00
Population by Geography	250,790	0.00	0.00	62.88	37.12	0.00
Owner-Occupied Housing by Geography	72,690	0.00	0.00	61.36	38.64	0.00
Businesses by Geography	19,418	0.00	0.00	62.37	37.63	0.00
Farms by Geography	900	0.00	0.00	62.67	37.33	0.00
Family Distribution by Income Level	68,866	11.27	16.59	25.50	46.64	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	19,186	0.00	0.00	71.96	28.04	0.00
Median Family Income HUD Adjusted Median Family Income for 2003 Households Below the Poverty Level	= \$57,829 = \$67,438 =4.0%	Median Housing Value = \$162,521 Unemployment Rate = 4.7%				

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2003 HUD updated MFI.

The above chart reflects demographic information based on the 2000 Census information. QNB’s performance in 2003 is compared to this information.

The major changes relative to the 1990-2000 Census reclassification are: eight middle-income census tracts (1021.01, 2007.06, 2070.02, 2071.02, 2076.98, 2077, 2082.02) were eliminated and one upper income census tract (2083) was eliminated, seven middle-income census tracts (1021.04, 2007.07, 2007.08, 2071.03, 2071.04, 2076, 2083.01) and three upper income census tracts (1021.03, 2070.03, 2070.04) were established, six middle-income census tracts (70, 1023, 1035, 1042, 2074, 2085) were reclassified to upper-income census tracts, and two upper-income census tracts (1021.02, 1048) were reclassified as middle-income census tracts.

Based on the 2000 Census information, the bank’s AA contained 65 contiguous census tracts (CTs), of which, 59 were located in Bucks and Montgomery County, which was part of the Philadelphia MSA 6160, 5 were located in Lehigh County, which was part of the Allentown-Bethlehem-Easton PA MSA 240, and 1 was located in Berks County, which was part of the Reading PA MSA 6680. There were 45 middle-income geographies and 20 upper-income geographies. There were no low- or moderate-income geographies. The OMBs revisions to MSA definitions and boundaries resulted in further changes to census tract income levels, which are presented and discussed in the next table.

The 2000 U.S. census reported the total population of the assessment area at 250,790. This population was comprised of 91,801 households and 68,866 families. There were 95,121 housing units, of which, 76% were owner-occupied housing, 20% were rental-occupied housing, and 4% were vacant housing. The median housing cost in the AA was \$162,521.

The 2000 census combined MSA median family income was \$57,829 and the HUD adjusted median family income for 2003 was \$67,438. Approximately 11% of the families are low-income, 17% moderate-income, 26% middle-income, and 47% upper-income. In addition, 4% remain below the poverty level.

According to the 2003 business demographics, there are a total of 19,418 businesses and 900 farms. Approximately 65% of the businesses reporting have revenues less than \$1 million and approximately 29% of the businesses did not report revenue.

**QNB’s assessment area, which includes portions of the Philadelphia MD 37964, the Allentown-Bethlehem-Easton, PA-NJ MSA 10900, and the Reading PA MSA 39740, as defined by the 2000 Census updated in 2004 to reflect the new OMB MSA definitions and boundaries that became effective for 2004.**

Demographic Information for Full-Scope Area: QNB’s assessment area, which includes portions of the Philadelphia MD 37964, the Allentown-Bethlehem-Easton, PA-NJ MSA 10900, and the Reading PA MSA 39740, as defined by the 2000 Census updated in 2004 to reflect the new OMB MSA definitions and boundaries that became effective for 2004.						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	65	0.00	0.00	58.46	41.54	0.00
Population by Geography	250,790	0.00	0.00	52.33	47.67	0.00
Owner-Occupied Housing by Geography	72,690	0.00	0.00	51.04	48.96	0.00
Businesses by Geography	19,404	0.00	0.00	52.17	47.83	0.00
Farms by Geography	886	0.00	0.00	53.27	46.73	0.00
Family Distribution by Income Level	68,866	11.04	16.20	25.16	47.59	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	18,761	0.00	0.00	62.29	37.71	0.00
Median Family Income HUD Adjusted Median Family Income for 2004 Households Below the Poverty Level	= \$56,691 = \$65,960 =4.0%				Median Housing Value = \$162,521 Unemployment Rate = 4.7%	

(\*) The NA category consists of geographies that have not been assigned an income classification.  
Source: 2000 U.S. Census, and 2004 HUD updated MFI.

The above chart reflects demographic information based on the 2000 Census information, updated to reflect the new OMB MSA definitions and boundaries that become effective for 2004. QNB’s performance in 2004 is compared to this information.

The major changes based on the 2000 Census information updated to reflect the new OMB MSA definitions and boundaries that became effective for 2004 are: seven middle-income census tracts (1022, 1028.01, 2007.04, 2007.08, 2071.01, 2071.03, 2078) were reclassified as upper-income census tracts.

For 2004, the bank’s AA contained 65 contiguous census tracts (CTs), of which, 59 were located in Bucks and Montgomery County, which is part of the Philadelphia MD 37964, 5 are located in Lehigh County, which is part of the Allentown-Bethlehem-Easton PA-NJ MSA 10900 and 1 is located in Berks County, which is part of the Reading PA MSA 39740. There are 38 middle-income geographies and 27 upper-income geographies. There were no low- or moderate-income geographies.

The 2000 U.S. census reported the total population of the assessment area at 250,790. This population was comprised of 91,801 households and 68,866 families. There were 95,121 housing units, of which, 76% were owner-occupied housing, 20% were rental-occupied housing, and 4% were vacant housing. The median housing cost in the AA was \$162,521.

The 2000 census combined MSA median family income was \$56,691 and the HUD adjusted median family income for 2003 was \$65,960. Approximately 11% of the families are low-income, 16% moderate-income, 25% middle-income, and 48% upper-income. In addition, 4% remain below the poverty level.

According to the 2004 business demographics, there are a total of 19,404 businesses and 886 farms. Approximately 67% of the businesses reporting have revenues less than \$1 million and approximately 27% of the businesses did not report revenue. The primary industries in the AA are services 37% and retail trade at 13%.

QNB operates eight full services branches. One of these is a supermarket branch that was opened during the evaluation period. Seven branches are located in Bucks and Montgomery Counties and one branch is located in Lehigh County. All branch locations are equipped with automated teller machines (ATMs) and seven of the offices have drive-through facilities. Extended weekday and Saturday hours are available at all branch locations and Sunday hours are available at the supermarket branch. No branches were closed during the evaluation period. A full line of traditional banking products and services are offered at all branches.

QNB had a 12.28% deposit market share as of June 30, 2004, ranking it 4<sup>th</sup> among financial institutions in the AA. The top three institutions are: Univest National Bank, NA (19.64% market share and 15 offices), Harleysville National Bank (17.70%% market share and 9 offices), First Savings Bank of Perkasie (15.95% market share with 8 offices). In addition, QNB faces competition from larger local, regional, and national banks including Wachovia Bank, NA, Harleysville Savings Bank, Sovereign Bank, and National Penn Bank.

The economic conditions within the AA are considered strong and unemployment rates are well below the state and national averages. Major employers in Bucks County include hospital and health care related organizations, school districts, and municipal governments.

We determined through our community contact and internal research that there are opportunities for community development lending, investments, and services within the AA. Both community contacts indicated there is a lack of affordable housing, including rental units, for low- and moderate-income individuals. Opportunities for financial institutions to assist in meeting this credit need include: providing low cost financing, making donations, volunteering their time and services, publicizing the need for affordable housing, and purchasing mortgages from one of the non-profit organizations. QNB was praised by both organizations for their leadership and support.

## Appendix C: Tables of Performance Data

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### Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: (1) purchased loans are treated as originations/purchases and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE. [Note: Do not renumber the tables.]

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. Refer to Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. When such loans exist, insert a line item with the appropriate caption in the MA/Assessment Area column and record the corresponding numbers and amounts in the “Community Development Loans” column with the appropriate caption, such as: “Statewide/Regional,” “Statewide/Regional with potential benefit to one or more AAs” or “Out of Assessment Area.” “Out of Assessment Area” is used ONLY if the bank has otherwise adequately met the CD lending needs of its assessment area.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of

the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 12. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 13. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)** - For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial reporting system.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12(i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. When such investments exist, insert a line item in the MA/Assessment Area column and record the corresponding numbers and amounts in the "Qualified Investments" column with the appropriate caption, such as: "Statewide/Regional," "Statewide/Regional with potential benefit to one or more AAs" or "Out of Assessment Area." "Out of the Assessment Area" is used ONLY if the bank has otherwise adequately met the qualified investment needs of its assessment area.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings** - Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MA/AA. The table also presents data on branch openings and closings in each MA/AA.

## Table 1. Lending Volume

LENDING VOLUME		Geography: QNB AA						Evaluation Period: January 1, 2002 to December 31, 2004				
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
QNB AA (2002)	100	743	51,212	439	52,782	2	100	0	0	1,184	104,094	100
QNB AA (2003)	100	964	71,336	431	56,304	1	15	0	0	1,396	127,655	100
QNB AA (2004)	100	686	42,410	447	64,150	0	0	0	0	1,133	106,560	100
QNB 2/26/02 to 8/24/05								37	2,497	37	2,497	

\* Loan Data as of December 31, 2004. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is February 26, 2002 to August 24, 2005.

\*\*\* Deposit Data as of *June 30, 2004*. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.



## Table 1. Other Products

LENDING VOLUME		Geography: QNB AA						Evaluation Period: January 1, 2002 TO December 31, 2004						
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Total Optional Loans**		Small Business Real Estate Secured**		Home Equity**		Motor Vehicle**		Credit Card**		Other Secured Consumer**		% of Rated Area Deposits in AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>														
QNB AA (2002)	100	626	9,602	7	764	135	3,556	248	2,255	0	0	63	2,412	100
QNB AA (2003)	100	492	8,013	9	1,047	109	2,922	180	1,424	0	0	67	1,926	100
QNB AA (2004)	100	544	11,756	4	496	197	7,978	192	1,565	0	0	28	1,256	100

\* Loan Data as of December 31, 2004. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Optional Product Line(s) is From January 1, 2002 to December 31, 2004.

\*\*\* Deposit Data as of June 30, 2004. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 1. Other Products**

LENDING VOLUME		Geography: QNB AA		Evaluation Period: January 1, 2002 TO December 31, 2004	
MA/Assessment Area:	Other Unsecured Consumer Loans		Other Optional Loans*		
	#	\$ (000's)	#	\$ (000's)	
<b>Full Review:</b>					
QNB AA (2002)	173	615	0	0	
QNB AA (2003)	127	694	0	0	
QNB AA (2004)	123	461	0	0	

(\*)The evaluation period for Optional Product Line(s) is from January 1, 2002 to December 31, 2004.

## Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		Geography: QNB AA		Evaluation Period: January 1, 2002 TO December 31, 2004												
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography					
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid
<b>Full Review:</b>																
QNB AA (2002)	54	100.00	0.00	0.00	0.00	0.00	73.28	83.33	26.72	16.67	.83	0.00	0.00	.92	.56	
QNB AA (2003)	50	100.00	0.00	0.00	0.00	0.00	61.36	82.00	38.64	18.00	.74	0.00	0.00	1.03	.32	
QNB AA (2004)	69	100.00	0.00	0.00	0.00	0.00	51.04	81.16	48.96	18.84	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by the number of owner occupied housing units in the area based on 1990 and 2000 Census information.

### Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT			Geography: QNB AA				Evaluation Period: January 1, 2002 TO December 31, 2004									
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography					
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
QNB AA (2002)	206	100.00	0.00	0.00	0.00	0.00	73.28	89.81	26.72	10.19	8.99	0.00	0.00	10.70	3.74	
QNB AA (2003)	220	100.00	0.00	0.00	0.00	0.00	61.36	79.09	38.64	20.91	8.61	0.00	0.00	10.68	4.91	
QNB AA (2004)	303	100.00	0.00	0.00	0.00	0.00	51.04	77.89	48.96	22.11	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 and 2000 Census information.

## Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE												Geography: QNB AA Evaluation Period: January 1, 2002 TO December 31, 2004				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography					
	#	% of Total**	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
QNB AA (2002)	483	100.00	0.00	0.00	0.00	0.00	73.28	86.13	26.72	13.87	3.41	0.00	0.00	4.11	1.66	
QNB AA (2003)	694	100.00	0.00	0.00	0.00	0.00	61.36	78.82	38.64	21.18	3.09	0.00	0.00	4.35	1.49	
QNB AA (2004)	314	100.00	0.00	0.00	0.00	0.00	51.04	72.61	48.96	27.39	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied housing units in a particular geography divided by number of owner occupied housing units in the area based on 1990 and 2000 Census information.

## Table 6. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES																
Geography: QNB AA      Evaluation Period: January 1, 2002 TO December 31, 2004																
MA/Assessment Area:	Total Small Business Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography					
	#	% of Total**	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid
<b>Full Review:</b>																
QNB AA (2002)	439	100.00	0.00	0.00	0.00	0.00	74.59	94.99	25.41	5.01	.73	0.00	0.17	1.39	0.13	
QNB AA (2003)	431	100.00	0.00	0.00	0.00	0.00	62.37	85.61	37.63	14.39	.74	0.00	.26	1.39	0.28	
QNB AA (2004)	447	100.00	0.00	0.00	0.00	0.00	52.17	75.39	47.83	24.61	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Source Data - Dun and Bradstreet 2002 and 2003.

## Table 8. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		Geography: QNB AA					Evaluation Period: January 1, 2002 TO December 31, 2004									
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share					
	#	% of Total**	% Families***	% BANK Loans****	% Families** *	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
QNB AA (2002)	54	100.00	11.14	7.69	17.40	21.15	28.63	38.46	42.83	32.69	0.92	1.72	1.00	1.14	0.66	
QNB AA (2003)	50	100.00	11.27	16.00	16.59	24.00	25.50	18.00	46.64	42.00	0.86	2.13	0.90	0.48	0.94	
QNB AA (2004)	69	100.00	11.04	16.92	16.20	21.54	25.16	16.92	47.59	44.62	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by Bank.

\*\*\* Percentage of Families is based on the 1990 and 2002 Census information.

\*\*\*\* Home purchase loans originated and purchased in the MA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT			Geography: QNB AA				Evaluation Period: January 1, 2002 TO December 31, 2004					Market Share				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****						
<b>Full Review:</b>																
QNB AA (2002)	206	100.00	11.14	7.96	17.40	23.88	28.63	30.85	42.83	37.31	9.16	11.68	13.83	9.42	7.12	
QNB AA (2003)	220	100.00	11.27	13.68	16.59	19.34	25.50	37.26	46.64	29.72	8.53	14.29	9.27	10.36	5.93	
QNB AA (2004)	303	100.00	11.04	12.50	16.20	19.59	25.16	30.74	47.59	37.16	0.00	0.00	0.00	0.00	0.00	

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by Bank.

\*\*\* Percentage of Families is based on the 1990 and 2000 Census information.

\*\*\*\* Home improvement loans originated and purchased in the MA/AA as a percentage of all home improvement loans originated and purchased in the rated area.



## Table 10. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE			Geography: QNB AA								Evaluation Period: January 1, 2002 TO December 31, 2004				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share				
	#	% of Total**	% Families**	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	% Families* **	% BANK Loans****	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
QNB AA (2002)	483	100.00	11.14	8.97	17.40	18.59	28.63	27.78	42.38	44.66	3.88	9.09	4.90	3.73	3.30
QNB AA (2003)	694	100.00	11.27	12.87	16.59	19.01	25.50	27.99	46.64	40.12	3.55	9.75	3.79	3.24	3.05
QNB AA (2004)	314	100.00	11.04	12.42	16.20	20.92	25.16	27.45	47.59	39.22	0.00	0.00	0.00	0.00	0.00

\* Based on 2002 and 2003 Peer Mortgage Data: Northeast Region.

\*\* As a percentage of loans with borrower income information available. No information was available for 0.00% of loans originated and purchased by Bank.

\*\*\* Percentage of Families is based on the 1990 and 2000 Census information.

\*\*\*\* Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: QNB AA		Evaluation Period: January 1, 2002 TO December 31, 2004		
MA/Assessment Area:	Total Small Loans to Businesses		Businesses With Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share	
	#	% of Total**	% of Businesses***	% BANK Loans****	\$100,000 or less	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	All	Rev \$1 Million or Less
<b>Full Review:</b>									
QNB AA (2002)	439	100.00	60.96	52.62	71.98	15.95	12.07	0.73	1.66
QNB AA (2003)	431	100.00	65.41	66.82	70.30	16.24	13.46	0.74	1.59
QNB AA (2004)	447	100.00	66.90	62.64	66.22	18.34	15.44	0.00	0.00

\* Based on 2002 and 2003 Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

\*\*\* Businesses with revenues of \$1 million or less as a percentage of all businesses (Source D&amp;B – 2002 and 2003).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.00 of small loans to businesses originated and purchased by the Bank.

## Table 13. Geographic and Borrower Distribution of Consumer Loans

Geographic and Borrower Distribution: CONSUMER LOANS																			Geography: QNB AA Evaluation Period: January 1, 2002 TO December 31, 2004																		
MA/Assessment Area:	Geographic Distribution										Borrower Distribution																										
	Total Consumer Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers																				
	#	% of Total <sup>*</sup>	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans	% of Hhlds <sup>**</sup>	% of BANK Loans																			
<b>Full Review:</b>																																					
QNB AA (2002)	619	100.00	0.00	0.00	0.00	0.00	75.67	92.08	24.33	7.92	14.44	36.83	14.74	25.85	23.36	21.00	47.46	16.32																			
QNB AA (2003)	483	100.00	0.00	0.00	0.00	0.00	64.28	84.06	35.72	15.94	14.00	38.10	13.33	25.26	19.25	18.63	53.42	18.01																			
QNB AA (2004)	540	100.00	0.00	0.00	0.00	0.00	54.16	71.11	45.84	28.89	14.00	29.81	13.33	23.52	19.25	26.11	53.42	20.56																			

<sup>\*</sup> Consumer loans originated and purchased in the MA/AA as a percentage of all consumer loans originated and purchased in the rated area.

<sup>\*\*</sup> Percentage of Households is based on the 1990 and 2000 Census Information.

## Table 14. Qualified Investments

QUALIFIED INVESTMENTS		Geography: QNB AA				Evaluation Period: February 26, 2002 TO August 24, 2005			
MA/Assessment Area:	Prior Period Investments		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
QNB AA	1	65	30	1,127	31	1,192	100.00	0	0

\* 'Prior Period Investments' means investments made in a previous evaluation period that are outstanding as of the examination date.

\*\* 'Unfunded Commitments' means legally binding investment commitments that are tracked and recorded by the institution's financial reporting system.

## Table 15. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS													Geography: QNB AA				
<b>Evaluation Period:</b> February 26, 2002 TO August 24, 2005																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
QNB AA	100.00	8	100.00	0.00	0.00	100.00	0.00	1	0	0	0	+1	0	0.00	0.00	52.33	47.67