



# LARGE BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

Public Disclosure

September 18, 2007

Community Reinvestment Act  
**Performance Evaluation**

**Harleysville National Bank and Trust Company**  
Charter Number: 9541

**483 Main Street (Rt 63)**  
**Harleysville, PA 19438**

**Office of the Comptroller of the Currency**

**Eastern Pennsylvania Field Office**  
**3325 Street Road Suite 120**  
**Bensalem, PA 19020**

*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.*

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## Overall CRA Rating

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

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

Performance Levels	(Name of Depository Institution) Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	<b>X</b>	<b>X</b>	<b>X</b>
Low Satisfactory			
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 good responsiveness to the credit needs of the assessment areas (AAs) given the bank’s size, resources and strong level of competition.
- Distribution of loans among geographies of different income levels is adequate throughout the AAs.
- A substantial majority of home mortgage loans and small business loans were originated or purchased inside the AAs.
- Distribution of loans among borrowers of different income levels is excellent throughout the AAs.
- Investments reflect a good responsiveness to the credit and community development needs of the AAs.
- Service delivery systems are accessible to geographies and individuals of different income levels in the AAs.
- Community development service performance is good.

## 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

Harleysville National Bank and Trust Company (HNB) received its national bank charter on June 19, 1909, and as of December 31, 2006 had assets of \$3.2 billion. HNB is an intrastate bank with a network of forty-three full service branches, four limited service branches, and an alternative delivery system of ATM and cash dispensing machines located within nine contiguous counties. Its geography encompasses the central and southern portions of the eastern section of the Commonwealth of Pennsylvania, excluding Philadelphia County. HNB is a wholly owned subsidiary of the Harleysville National Corporation (Corporation). The Corporation (NASDAQ - HNB), was formed on June 1, 1982 in Pennsylvania, and on January 1, 1983 became the holding company for HNB. The Corporation is registered as a bank holding company under the Bank Holding Company Act of 1956. Since commencing operations, the Corporation's business has consisted primarily of providing financial services through its subsidiaries. Both HNB and the Corporation share headquarters in the Harleysville National Bank Campus located at 483 Main Street, Harleysville, Montgomery County, Pennsylvania.

Harleysville Management Services, LLC, a Pennsylvania subsidiary of HNB, performs human resource services and payroll processing for the Corporation's employees. Cornerstone Companies is another subsidiary of HNB, which was acquired on January 1, 2006. Cornerstone Companies is a registered investment advisor for high net worth individuals of privately held businesses, wealthy families and institutional clients. Located in the Lehigh Valley, Pennsylvania, the firm specializes in providing sophisticated open architecture asset management platforms, business succession, estate planning services, life insurance sales and compensation and benefits consulting. The Cornerstone Companies had assets under management of approximately \$1.5 billion at the acquisition date and serve clients throughout Pennsylvania and other mid-Atlantic states.

The Corporation is also the parent holding company of HNC Financial Company and HNC Reinsurance Company. HNC Financial Company, headquartered in Wilmington, Delaware, was incorporated on March 17, 1997 as a Delaware Corporation and its principal business function is to expand the investment opportunities of the Corporation. HNC Reinsurance Company, headquartered in Phoenix, Arizona, was incorporated on March 30, 2001 as an Arizona Corporation and reinsures consumer loan credit life and accident and health insurance. The Corporation also has three other subsidiaries. HNC Statutory Trust III, a Delaware statutory trust subsidiary was formed on September 28, 2005 for the sole purpose of issuing \$25.8 million in Capital Securities. HNC Statutory Trust II, a Delaware statutory trust subsidiary was formed on March 25, 2004 for the sole purpose of issuing \$20.6 million in Capital Securities, and Harleysville Statutory Trust I (Trust I) is a Connecticut business trust, in which the Corporation owns all of the common equity in \$5 million of Capital Securities. The activities of the operating subsidiaries were not considered in this evaluation.

In 2003 the Corporation had three separately chartered banking subsidiaries, which included HNB, Citizens National Bank (CNB) and Security National Bank (SNB). On March 29, 2004, the charters of CNB and SNB were combined into HNB. The prior Public Evaluation dated April 5, 2004 did not include activity for CNB or SNB. On April 30, 2004 the Corporation completed its acquisition of Millennium Bank, a \$200 million Malvern, PA. based thrift-company with branches in Malvern, Blue Bell, and Wyomissing, and its subsidiary, Cumberland Advisors, Inc., a registered investment advisor located in Vineland, NJ. On April 1, 2005 the

Corporation sold its McAdoo Branch in Schuylkill County, which was formerly a Citizens National Bank branch. On June 30, 2005 the Corporation sold its recently acquired subsidiary Cumberland Advisors. On November 10, 2006 the Corporation sold its' Honesdale Branch in Wayne County, PA., which was also a former Citizens National Bank branch, and on June 15, 2007 the bank sold its Rt. 401 Malvern branch, which was part of the Millennium Bank acquisition.

On August 23, 2007 the Corporation announced that HNC Statutory Trust IV, a Delaware statutory trust subsidiary, has completed an offering of \$22.5 million of Capital Securities. The Corporation anticipates using the proceeds for general corporate purposes including funding of the pending East Penn Financial Corporation acquisition scheduled to close in the fourth quarter of 2007. East Penn Financial Corporation is a \$451 million community bank located in the Lehigh Valley, Pennsylvania.

Total net loans are \$2 billion and account for 64% of total assets. The loan portfolio is comprised of \$650 million in commercial mortgages (32%); \$246 million in commercial and industrial loans (12%); \$884 million in loans secured by first and junior mortgages on 1-4 family residential properties (43%); \$133 million of construction and land development loans (7%); and \$86 million in consumer loans (4%). The remaining \$48 million is comprised of other type loans and accounts for only 2% of the portfolio. Tier-1 capital as of December 31, 2006 was \$258 million.

HNB provides a full range of traditional banking services including commercial and retail loan and deposit products. It also offers investment management as well as trust and investment advisory services to both individual and corporate customers. HNB enjoys a stable base of core deposits. Executive management believes it has gained and continues to maintain its strong position in its community as a result of a customer-oriented philosophy and a strong commitment to service. Management has created a sales minded culture, and continues to nurture this culture with extensive employee training and sales incentive programs. Officers and employees maintain close contact with the local business community to monitor credit needs and respond to customer requests quickly and with flexibility. Management believes these competitive strengths are reflected in the Corporation's results of operations.

There are no existing legal, financial or other factors that would impede the bank's ability to meet the credit needs within its AA. The date of the last CRA examination was April 5, 2004 at which time HNB received a "Satisfactory" rating.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The evaluation period for Home Mortgage Disclosure Act (HMDA) loans and small business loans consists of two distinct time periods. These are January 1, 2003 to December 31, 2003 (the 2003 period), and January 1, 2004 to December 31, 2006 (the 2004 to 2006 period). The 2003 period incorporates the use of 2000 Census demographic information. The 2004 to 2006 period uses 2000 Census demographic information which was updated in 2004 to reflect the new Office of Management and Budget (OMB) MSA / MD definitions and boundaries. Due to the significant changes in the boundaries and in the demographic information between the two time periods, the loan data was analyzed separately, however the tables for the 2003 evaluation period are not included in this evaluation. The evaluation period for Community Development (CD) loans, Investment Test and Service Test is April 5, 2004 to September 18, 2007. This represents the time period between the start of the last CRA examination and the beginning of the current CRA exam.

For the Lending Test we evaluated home mortgage loans (home purchase, home improvement and mortgage refinance) and small loans to businesses for both the 2003 period and the 2004 to 2006 period. The analysis for each period was further broken down by AA. Small loans to farms and multi-family loans are not primary bank products and are not included in this evaluation. The bank does not track consumer loans, and did not request they be added to the scope, thus they were not included in this examination. The market share and peer comparisons are based on the information contained in the aggregate HMDA Registers for 2005 and Small Business/Farm Registers for 2006. HMDA Register data is not available for 2006 at the time of this examination. The aggregate HMDA and Small Business/Farm Reports are available for public review.

### Data Integrity

A data integrity examination was conducted in March 2007 to assess the accuracy of the HMDA-LARS register and small business loan reporting. No significant exceptions were discovered and the loan data was found to be reliable to conduct this evaluation.

### Selection of Areas for Full-Scope Review

In the 2003 evaluation period the bank had a single AA located in Philadelphia, Pennsylvania MSA # 6160. A full scope examination was performed for the 2003 evaluation period. In the 2004 to 2006 period the bank delineated four AAs, which are:

1) MD # 37964-Philadelphia, Pennsylvania:

This AA includes the majority of Bucks and Montgomery County, and the northeastern portion of Chester County. This MD was redefined by the OMB in 2004. In the 2003 evaluation period it is referenced as Philadelphia, Pa. MSA # 6160. This MD received a full scope review.

2) MSA # 10900-Allentown, Bethlehem, Easton, Pennsylvania:

This AA includes the northern portion of Lehigh County, the western tip of Northampton County, and Carbon County in its entirety. This MSA received a full scope review.

3) MSA # 39740-Reading, Pennsylvania

This AA consists of census tracts in the southern portion of Berks County that surrounds the bank's three branches. This MSA received a limited scope review.

4) MSA # 99999 – NA

This AA is comprised of a small number of census tracts which have not been given an income designation. Four of the tracts sit contiguously in the western portion of Monroe County adjacent to eastern Carbon County. Six of the contiguous census tracts are in the eastern portion of Schuylkill County adjacent to western Carbon County. These counties received a limited scope review.

A Full Scope review was performed for the Philadelphia, Pennsylvania MSA # 6160 in the 2003 period. Separate Full Scope reviews were also performed for Philadelphia, Pennsylvania MD # 37964, and the Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900 in the 2004 to 2006 period. In the 2004 to 2006 period, approximately seventy-three percent of total reported loans were originated or purchased in the Philadelphia, Pennsylvania MD # 37964, and approximately twenty percent of total reported loans were originated or purchased in the Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900. Limited Scope reviews were performed for Reading, Pennsylvania MSA # 39740 and the two Pennsylvania counties of Monroe and Schuylkill, which have not been assigned any income rating. The Reading, Pennsylvania MSA # 39740 and NA two counties account for only approximately eight percent of the total loans originated or purchased in the 2004 to 2006 period.

## **Ratings**

The bank's overall rating is primarily based on the following full scope reviews:

- The 2003 evaluation period for Philadelphia, Pennsylvania MSA # 6160
- The 2004 to 2006 evaluation period for Philadelphia, Pennsylvania MD # 37964
- The 2004 to 2006 evaluation period for Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900

In determining conclusions for the Lending Test, most weight was given to:

- Borrower income distribution of home mortgage loans and small business loans.
- Home Refinance Loans

The bank actively seeks all three types of home mortgage loans. However, home refinance loans reflect a preponderance of originations, thus were given slightly more weight in the evaluation. During the 2003 evaluation period, home mortgage loans accounted for 93% of all HMDA loans originated or purchased, and home refinance loans accounted for 53% of all

home mortgage loans. During the 2004 to 2006 evaluation period home mortgage loans accounted for 60% of all HMDA loans originated or purchased, and home refinance loans accounted for 48% of all home mortgage loans.

The Lending Test was given more weight than the Investment Test or Service Test. In determining conclusions for the Lending Test no weight was given to the geographic distribution of loans in low-income geographies for either the 2003 evaluation period or the 2004 to 2006 evaluation period. In the 2003 evaluation period there was one (0.03%) low-income census tract in the Philadelphia MSA # 6160. Based upon US 2000 Census Data, there were only 310 owner occupied units in this low-income census tract. Peer Mortgage Data reveals that in 2003 there were 192 financial institutions competing for 63,961 home mortgage loans that were originated or purchased within the bank's AA. In the 2004 to 2006 evaluation period, HNB had only seven low-income census tracts within its four defined AAs. The total number of owner occupied housing units in the seven low-income tracts is only 1,573 homes. Peer Mortgage Data reveals that in 2005 there were 763 financial institutions competing for 200,348 home mortgage loans that were originated or purchased within the bank's four AAs. This extremely strong competition for so few target homes in the low-income tracts severely inhibits the bank's opportunity to lend in these geographies. Thus, no weight was given to the geographic distribution of home mortgage loans in the low-income census tracts due to the bank's restricted opportunity to lend in these geographies.

Community Development loans were reviewed to determine if they met the regulatory criteria to qualify as CD loans, and whether they had a positive or neutral effect on the bank's the Lending Test. In addition, we assessed their effectiveness in meeting the credit needs of the low- and moderate-income geographies and populations in the bank's AA, as well as, the small business needs of the community. Investments were also tested to determine if they met the definition of CD investments, and considered the extent to which such investments meet the credit and community development needs of the AA. Finally, we evaluated the bank's performance in providing accessible branch locations, and innovative and flexible-lending and deposit products, as well as bank services, which meet the credit and banking needs of low- or moderate-income individuals and geographies.

## **Other**

Recent community contacts were reviewed for areas receiving full reviews in order to determine the credit needs of the AAs. In addition, several community development organization web sites were also visited. In both MD/MSAs it was determined there is an overall credit need for funding to develop affordable housing, and flexible home repair loans. There is also a need to fund small business loans beyond the entrepreneur's home equity value. There is a need to enhance education to individuals and small business owners regarding mortgages, bank products, and obtaining small business loans.

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

No evidence of illegal discrimination or other illegal credit practices was identified during this examination.

## 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 "High Satisfactory." Based on the following Full-Scope Reviews the performance is as follows:

- The performance for the 2003 evaluation period for Philadelphia, Pennsylvania MSA # 6160 is good.
- The performance for the 2004 to 2006 evaluation period for Philadelphia, Pennsylvania MD # 37964 is good.
- The performance for the 2004 to 2006 evaluation period for Allentown, Bethlehem, Easton, MSA # 10900 is good.

#### **2003 Evaluation Period - Philadelphia, Pennsylvania MSA # 6160**

##### Lending Activity

In the 2003 evaluation period, the bank's leading product was home mortgage loans, which represented 93% of the total loans originated or purchased. Small business loans represented the remaining 7%, and at the time, were not considered a primary bank product since the bank's focus was on lines of credit and commercial mortgages to larger borrowers. Nine percent of the home mortgage loans were for home purchase, 38% of home mortgage loans were for home improvement, and 53% of home mortgage loans were for home mortgage refinance.

HNB's overall lending activity in the AA is good, given the bank's size, resources and high level of robust competition from national mortgage companies, large money center banks, and national credit card lenders. Based on the FDIC Summary of Deposits as of June 30, 2003, HNB ranks sixth out of 68 financial institutions for deposits with a 4.17% market share. Aggregate 2003 HMDA data ranks HNB 34<sup>th</sup> out of 482 lenders in home purchase loans with a 0.68% market share. The top ten home purchase mortgage lenders are national mortgage companies and large money center banks, which have a 44% market share. HNB ranks second out of 181 lenders in home improvement loans with a 7.12% market share; HNB ranks 21<sup>st</sup> out of 591 lenders in home refinance loans with a 0.94% market share. The top ten home refinance mortgage lenders are national mortgage companies and large money center banks, which have a 45% market share. Based on 2003 CRA aggregate data, HNB ranks 31<sup>st</sup> as the originator/ purchaser of small loans to businesses with a 0.29% market share. The top ten lenders to small businesses in the AA are national credit card companies, and large money center banking organizations that have a 79% market share.

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

HNB's performance demonstrates adequate geographic distribution of home mortgage loans in low- and moderate-income geographies. However, geographic distribution of small loans to businesses reflects poor distribution throughout the AA. This is due to the extreme high level

of competition, the lack of opportunity to lend in low- income geographies, and limited opportunity to lend in the moderate-income tracts.

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

The geographic distribution of home purchase loans is good. The bank did not originate or purchase any home purchase loans in the low-income geography. However, the percentage of home purchase mortgage loans made in the moderate-income geographies exceeds the percentage of owner occupied units within the moderate-income geographies. In addition, the bank's market share of home improvement loans in moderate-income census tracts exceeds the bank's overall market share of home purchase loans.

The geographic distribution of home improvement loans is adequate. The bank did not originate or purchase any home improvement loans in the low-income geography, and the percentage of bank loans made in the moderate-income tracts is lower than the percent of owner occupied units. However, the bank's market share of home improvement loans in the moderate-income tracts is near to the bank's overall market share of home improvement loans.

The geographic distribution of home refinance loans is poor. The percentage of bank loans originated or purchased in the low-income geography is near to the percent of owner-occupied units. The percentage of bank loans originated or purchased in the moderate-income geographies is lower than the percent of owner occupied housing units in the moderate-income tracts. The market share of home refinance loans in the low- and moderate-income geographies is lower than the bank's overall market share of home refinance loans.

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

The geographic distribution of small loans to businesses is poor. No small loans to businesses were made in the low- or moderate-income geographies.

### **Lending Gap Analysis**

Reports detailing HNB's lending activity over the 2003 period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the geographic distribution of loans. No unexplained or conspicuous gaps were identified.

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

A majority (75%) of the home mortgage and small business loans were made within the bank's AA. By product, 75% of the bank's home mortgage loans and 86% of the small loans to businesses were within the bank's AA. The home mortgage in/out ratios by number and purpose were as follows: home purchase at 66%, home improvement at 92%, and refinances at 68%. This performance was factored into the overall analysis of the distribution of lending by income level of geography.

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

The borrower distribution of HNB home mortgage loans reflects an excellent dispersion to borrowers of different income levels throughout the AA. The borrower distribution of small

loans to businesses is adequate. In the evaluation of borrower distribution, we gave consideration to the poverty level in the AA. The poverty level in the Philadelphia MSA # 6160 is 5.00%. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, we considered this in evaluating the bank's lending distribution to low-income borrows.

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

Home purchase loan borrower distribution is excellent. The portion of home purchase loans to both low- and moderate-income borrowers significantly exceeds the portion of families in the AA defined as such. The market share for loans made to low-income borrowers and to moderate-income borrowers exceeds HNB overall market share in the AA for home purchase loans.

Home improvement loan borrower distribution is excellent. The portion of home improvement loans to low-income borrowers is near to the portion of low-income families, but is excellent when considering the 5.00% of households living below the poverty level. The portion of home improvement loans to moderate-income borrowers significantly exceeds the portion of families defined as such in the AA. The market share for loans made to both low- and moderate-income borrowers exceeds HNB's overall market share in the AA for home improvement loans.

Home refinance loan borrower distribution is also excellent. The portion of home refinance loans to low-income borrowers is below the portion of low-income families; however, it is considered excellent when considering the 5.00% of households living below the poverty level. The portion of refinance loans to moderate-income borrowers significantly exceeds the portion of families defined as such. The market share for loans made to both low- and moderate-income borrowers exceeds HNB's overall market share in the AA for refinance loans.

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

HNB's distribution of loans to businesses of different sizes is adequate in the 2003 evaluation period. Lending to businesses with revenues of \$1 million or less is below area demographics. Within the Philadelphia MSA # 6160 in 2003, twenty-three percent of reportable business loans were originated to businesses with annual revenues of less than \$1 million. Demographic data indicates that 61 percent of all businesses have revenues less than \$1 million. In the 2003 evaluation period, the bank's primary business focus was working capital loans largely benefiting larger businesses. As the bank was not primarily a small business lender, the opportunities to lend to small businesses were limited. The bank faces robust and aggressive competition from other large institutions serving the same AA. However, the bank's market share of loans to small businesses with revenues of \$1 million or less is near to the bank's overall market share of loans to small businesses.

## **2004 to 2006 Period –Philadelphia MSA # 37964**

### **Lending Activity**

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity for the 2004 to 2006 period.

In the 2004 to 2006 evaluation period, the bank's leading product in MSA # 37964 was home mortgage loans, representing 54% of the loans originated or purchased. Small business loans represented the remaining 46%. Twenty-one percent of the home mortgage loans were for home purchase, 29% of home mortgage loans were for home improvement, and 50% of home mortgage loans were for home mortgage refinance.

HNB's overall lending activity in the AA is good, given the bank's size, resources and high level of robust competition from national mortgage companies, large money center banks, and national credit card lenders. Based on the FDIC Summary of Deposits as of June 30, 2003, HNB ranks sixth for deposits with a 4.27% market share competing among 71 financial institutions with 801 branches within the MSA. Aggregate 2005 HMDA data ranks HNB 48<sup>th</sup> out of 674 lenders in home mortgage loans with a 0.46% market share. The top ten home mortgage lenders are national mortgage companies and large money center banks, which have an overall 36% market share. HNB ranks 39<sup>th</sup> out of 508 lenders in home purchase mortgage loans with a market share of 0.52%; HNB ranks 11<sup>th</sup> out of 256 lenders in home improvement loans with a 2.53% market share; and HNB ranks 26<sup>th</sup> out of 572 lenders in home refinance loans with a 0.90% market share. In each of the above categories the top ten lenders are all national mortgage companies and money center banks and have the following market shares; 41% for home purchase loans; 43% for home improvement loans; and 39% for home refinance loans.

Based on 2006 CRA aggregate data, HNB ranks 25<sup>th</sup> as the originator/purchaser of small loans to businesses with a 0.31% market share. The top ten lenders to small businesses in the AA are national credit card companies, and large money center banking organizations that have a combined 86% market share. The number one originator of small loans to businesses is a national credit card company specializing in business credit cards and holds a 38% market share of small loans to businesses made within the AA.

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

The geographic distribution of HNB's home mortgage loans and small loans to businesses is adequate throughout the AA, given the high level of competition among lenders in the AA, and the lack of opportunity to lend in low- and moderate-income geographies. In the Philadelphia, Pennsylvania MSA # 37964 for the 2004 to 2006 evaluation period there was only one (0.33%) low-income census tract and seventeen (5.54%) moderate-income geographies. There are only 310 owner occupied units in the low-income census tract.

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

Refer to Tables 2, 3, and 4 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of home purchase loans is excellent. The percentage of home purchase loans made in the low- and moderate-income geographies exceeds the percentage of owner occupied units in the low- and moderate-income geographies. In addition, the market share of home purchase loans in the moderate-income geographies exceeds the bank's market share of home purchase loans.

The geographic distribution of home improvement loans is adequate. The bank did not originate or purchase any home improvement loans in the low-income geography, and the percentage of bank loans made in the moderate-income tracts is lower than the percent of owner occupied units. However, the bank's market share of home improvement loans in the moderate-income tracts is near to the bank's overall market share of home improvement loans.

The geographic distribution of home refinance loans is adequate. The percentage of bank loans originated or purchased in the low-income geography is near to the percent of owner-occupied units. The percentage of bank loans originated or purchased in the moderate-income geographies is lower than the percent of owner occupied housing units in the moderate-income tracts. The market share of home refinance loans in the low- and moderate-income geographies is lower than the bank's overall market share of home refinance loans.

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

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is adequate. The percentage of bank loans made in the low- and moderate-income geographies is lower than the percentage of businesses in the low- and moderate-income geographies. However, the bank's market share of small loans to businesses in the moderate-income geographies exceeds the banks overall market share of small loans to businesses.

### **Lending Gap Analysis**

Reports detailing HNB's lending activity over the 2004 to 2006 period for home mortgage loans and small loans to businesses were reviewed to identify gaps in the geographic distribution of loans. No unexplained or conspicuous gaps were identified.

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

An inside/outside ratio analysis for the 2004 through 2006 period was performed is by combining HNB's four AAs, which are Philadelphia MSA # 37964; Allentown-Bethlehem-Easton MSA # 10900; Reading MSA # 39740; and the non assigned tracts.

A substantial majority (83%) of the home mortgage and small business loans were made within the bank's AAs. Eighty-four percent of the bank's home mortgage loans and 83% of the small loans to businesses were within the bank's AA. The home mortgage in/out ratios by number and purpose are as follows: home purchase at 77%, home improvement at 88%, and refinances at 84%. This performance was factored into the overall analysis of the distribution of lending by income level of geography.

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

The borrower distribution of HNB home mortgage loans is excellent among borrowers of different income levels throughout the AA. The borrower distribution of small loans to businesses is adequate. In the evaluation of borrower distribution, we gave consideration to the poverty level in the AA. The poverty level in the Philadelphia MD # 37964 is 5.00%. Due

to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, we considered this in evaluating the bank's lending distribution to low-income borrowers.

### ***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 loan borrower distribution is excellent. The percentage of bank loans to low-income borrowers is lower than the percentage of low-income families within the AA; however, it is considered excellent when considering the 5.00% below poverty level. The percentage of bank loans to moderate-income families significantly exceeds the percentage of moderate-income families within the AA. In addition, the market share of home purchase loans to low- and moderate-income families exceeds the banks overall market share of home purchase loans.

Home improvement loan borrower distribution is good. The percentage of bank loans to low-income borrowers is lower than the percentage of low-income families within the AA. However, it is considered excellent when considering the 5.00% below poverty level. The percentage of bank loans to moderate-income families exceeds the percentage of moderate-income families within the AA. In addition, the market share of home improvement loans to low- and moderate-income families exceeds the banks overall market share of home improvement loans.

Home refinance loan borrower distribution is excellent. The percentage of bank loans to low-income borrowers is lower than the percentage of low-income families within the AA; however, it is considered excellent when considering the 5.00% below poverty level. The percentage of bank loans to moderate-income families significantly exceeds the percentage of moderate-income families within the AA. In addition, the market share of home refinance loans to low- and moderate-income families respectively exceeds and significantly exceeds the banks overall market share of home refinance loans.

### ***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.

HNB's distribution of loans to businesses of different sizes is adequate in the 2004 to 2006 period. The pattern of lending to businesses with revenues of \$1 million or less is below area demographics. Performance in Phila. Pa. MD # 37964 demonstrates that 38% percent of reportable business loans were originated to businesses with annual revenues of less than \$1 million. 2006 Peer Small Business demographic data indicates that 68 percent of all businesses have revenues less than \$1 million. However, a majority of the bank's loans (60%) were in the amount of \$100 thousand or less. The bank faces robust and aggressive competition from other large institutions serving the same AAs. Nevertheless, the HNB's market share of loans to businesses with revenues of \$1 million or less exceeds the banks overall market share of small loans to businesses.

## **2004 to 2006 Period – Allentown-Bethlehem-Easton, Pa. MSA # 10900**

### **Lending Activity**

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

In the 2004 through 2006 period, the bank's leading product in the Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900 was home mortgage loans, representing 82% of the loans originated or purchased. Small business loans represented the remaining 18%. Twenty-six percent of the home mortgage loans were for home purchase, 32% of home mortgage loans were for home improvement, and 42% of home mortgage loans were for home mortgage refinance.

HNB's overall lending activity in the AA is good, given the bank's size, resources and high level of robust competition from national mortgage companies, large money center banks, and national credit card lenders. Based upon the FDIC Deposit Market Share Report as of June 30, 2006 for the counties of Carbon, Northampton, and Lehigh, HNB ranks 10<sup>th</sup> in deposits with a 2.60% market share competing among 27 financial institutions with 258 branches within the MSA.

Aggregate 2005 HMDA data for MSA # 10900 ranks HNB 11<sup>th</sup> out of 467 lenders in home mortgage loans with a 1.48% market share. Nine of the top ten home mortgage lenders are national mortgage companies and large money center banks, and one regional bank, which have an overall 37% market share. HNB ranks 30<sup>th</sup> out of 358 lenders in home purchase mortgage loans with a market share of 0.90%; HNB ranks 9<sup>th</sup> out of 144 lenders in home improvement loans with a 3.87% market share; and HNB ranks 15<sup>th</sup> out of 360 lenders in home refinance loans with a 1.30% market share.

Based on 2006 CRA aggregate data for MSA # 10900, HNB is the 30<sup>th</sup> originator/purchaser of small loans to businesses with a 0.18% market share. The top ten lenders to small businesses in MSA # 10900 are national credit card companies, and large money center banking organizations that have a combined 83% market share. The number one originator of small loans to businesses is a national credit card company specializing in business credit cards and holds a 27% market share of small loans to businesses made within the MSA.

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

The geographic distribution of HNB's home mortgage loans and small loans reflects good coverage throughout the AA, given the high level of competition among lenders in the AA, and the lack of opportunity to lend in low-income geographies. Distribution of small loans to businesses is adequate. In the Allentown, Bethlehem, Easton, Pennsylvania MSA # 19099 in the 2004 to 2006 evaluation period there were only six (11.32%) low-income census tracts. In these six tracts there are only 1,263 owner occupied units. Peer Mortgage Data for 2005 reveals there were 467 financial institutions competing for 33,628 home mortgage loans in MSA # 10900. This strong competition for so few target homes in the low-income tracts severely inhibits the bank's opportunity to lend in these geographies.

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

Refer to Tables 2, 3, and 4 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations and purchases.

The geographic distribution of home purchase loans is good. The bank did not make any home purchase loans in the low-income geographies. The percentage of bank loans made in the moderate-income geographies exceeds the percentage of owner occupied units in those geographies. The bank's market share of home purchase loans originated or purchased in moderate-income geographies is near to the bank's overall market share of home purchase loans.

The geographic distribution of home improvement loans is excellent. The bank did not originate or purchase any home improvement loans in the low-income geographies; however, the percentage of bank loans made in the moderate-income tracts significantly exceeds the percentage of owner occupied units in those geographies. The bank's market share of home improvement loans in the moderate-income tracts significantly exceeds the bank's overall market share of home improvement loans.

The geographic distribution of home refinance loans is excellent. The bank did not originate or purchase any home refinance loans in the low-income geographies. However, the percentage of bank loans in the moderate-income geographies significantly exceeds the percentage of owner occupied units in the moderate-income tracts within the AA. The bank's market share of home refinance loans in the moderate-income tracts exceeds the bank's overall market share of home refinance loans.

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

Refer to Table 6 in appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is good. The percentage of bank loans made in the low-income geography is significantly lower than the percentage of businesses in the low-income geography. The percentage of bank loans originated or purchased in the moderate-income geographies significantly exceeds the percentage of businesses in these geographies within the AA. The bank's market share in the low-income geography is near to the bank's overall market share of small loans to businesses, while the bank's market share in the moderate-income geographies exceeds the bank's overall market share of loans to small businesses.

### **Lending Gap Analysis**

Reports detailing HNB's lending activity over the 2004 through 2006 period for MSA # 10900 for home mortgage loans and small loans to businesses were reviewed to identify gaps in the geographic distribution of loans. No unexplained or conspicuous gaps were identified.

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

The borrower distribution of HNB home mortgage and small loans to businesses reflect an excellent diversity among borrowers of different income levels throughout the AA. In the evaluation of borrower distribution, we gave consideration to the poverty level in the AA. The poverty level in the Allentown, Bethlehem, Easton, Pa. MSA # 10900 is 9.00%. Due to reasons of affordability, it is unlikely that those with incomes below the poverty level would be involved in home mortgage financing. Accordingly, we considered this in evaluating the bank's lending distribution to low-income borrowers.

### ***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.

The overall borrower distribution of home mortgage loans is excellent.

Home purchase loan borrower distribution is excellent. The percentage of bank loans to low-income borrowers is lower than the percentage of low-income families within the AA. The percentage of bank loans to moderate-income families significantly exceeds the percentage of moderate-income families within the AA. In addition, the market share of home purchase loans to low- and moderate-income families exceeds the banks overall market share of home purchase loans.

Home improvement loan borrower distribution is excellent. The percentage of bank loans to low- and moderate-income borrowers exceeds the percentage of low- and moderate-income families within the AA. In addition the market share of home improvement loans to low- and moderate-income families exceeds the banks overall market share of home improvement loans.

Home refinance loan borrower distribution is excellent. The percentage of bank loans to low-income borrowers is similar to the percentage of low-income families within the AA. However, the percentage of bank loans to moderate-income families significantly exceeds the percentage of moderate-income families within the AA. In addition the market share of home refinance loans to low- and moderate-income families exceeds the banks overall market share of home refinance loans.

### ***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.

HNB's distribution of loans to businesses of different sizes is adequate in the 2004 to 2006 period in MSA # 10900 AA. The level of lending to businesses with revenues of \$1 million or less is below area demographics. Thirty-nine percent of reportable business loans were originated to businesses with annual revenues of less than \$1 million. The 2006 Peer Small Business demographic data indicates that 69 percent of all businesses within the AA have revenues less than \$1 million. The bank faces robust and aggressive competition from other

large institutions serving the same AAs. Nevertheless, the HNB's market share of loans to businesses with revenues of \$1 million or less exceeds the banks overall market share of small loans to businesses. In addition, regardless of the size of the business, 67% of the small business loans originated or purchased were in the amount of \$100,000 or less.

## **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. This table includes all CD loans, including multifamily loans that also qualify as CD loans.

Community development loans had a neutral impact on the lending test for the 2003 evaluation period for Philadelphia, Pa. MSA # 6160, since the evaluation period for CD loans began on April 5, 2004. Any CD loans that were made during 2003 were used to determine performance for the prior evaluation. CD loans also had a neutral impact on the lending test for the 2004 to 2006 evaluation period for the Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900, since no CD loans were made in this MSA during the evaluation period.

Community development lending had a positive impact on the lending test for the 2004 to 2006 evaluation period for the Philadelphia, Pennsylvania MD # 37964. HNB originated ten CD loans for a total of \$578 thousand. All of the loans were originated through a multi-bank community development corporation. The purpose of this CD corporation is to serve as a vehicle for community revitalization through the financing of, and investment in, housing and related activities designed to address the needs of low- and moderate-income persons and areas. Some of the loans in which the bank participated are as follows:

The bank participated \$47 thousand in a \$503 thousand CD loan to supply 19 housing units and administrative space to a community development organization that assists low-income individuals and families who are on public assistance to move toward economic self-sufficiency and reduce their dependence on public support.

The bank participated \$30 thousand in a \$320 thousand CD loan to supply 8 apartments to a community development organization that assists low-income mentally handicapped homeless individuals with housing.

The bank participated \$67 thousand in an \$801 thousand CD loan to fund the acquisition of a 70 unit apartment building to house low- and moderate-income seniors.

The bank participated \$103 thousand in a \$925 thousand CD loan to fund the acquisition of 31 residential town homes for low-income families with housing payments of no more than 30% of household income.

The bank participated \$94 thousand in a \$1.5 million CD loan to fund the construction of a 74 unit apartment building to provide housing to low-income seniors in a moderate-income geography.

## Product Innovation and Flexibility

HNB offers various products that reflect product innovation and flexibility and provide good response to the credit needs of the low- and moderate-income individuals and families. Some of their products are designed specifically to meet the credit needs of low- and moderate-income individuals and families.

### Mortgages:

HNB offers Community Development Plan (CDP) mortgages for home purchases to allow low- and moderate-income individuals the opportunity of home ownership. The product is without fees and points or has low rates with minimal fees and points. The bank will lend up to 97% of the purchase price. Maximum income is restricted to a percentage of the median income in which county the borrower resides. Response to the CDP product has dwindled, because the bank offers a more desirable product to first time home buyers. The product is offered through Freddie Mac and known as Home Possible. This program offers 100% financing, 40% maximum debt to income ratio, and significantly reduced PMI premiums. This program is also restricted to low- and moderate-income individuals and families. This program has been a success with 470 Home Possible loans originated during the evaluation period for a total of \$62 million. HNB also offers Reverse mortgages, which can help meet the credit needs of low- and moderate-income seniors over the age of 62, since there is no minimum income or credit requirements.

### Consumer Credit and Credit Card:

The bank offers unsecured revolving credit lines attached to checking accounts in amounts as low as \$500. HNB also has several credit card plans to provide credit to college students and those who are attempting to establish credit or re-establish poor or weak credit. The College Rewards Visa card is available to any student of a 2 or 4 year college, full or part time, who is at least 18 years of age. The account does not require a minimum household income, nor is a co-maker required. The Young Adult Visa Card is designed to teach teenagers the responsibilities of credit. It is available to any teenager 16 years or older, with a qualifying co-maker who has a minimum income of \$12,000 annually. The secured credit card program offers lines of credit as low as \$300, which are secured by savings accounts of equal amounts.

### Student Loans:

The bank offers Stafford student loans to both dependent students and independent students. These loans are unsecured and have favorable rates. Various repayment opportunities are available.

## Conclusions for Areas Receiving Limited-Scope Reviews

Based on limited-scope reviews, the bank's performance under the lending test in the Reading, Pennsylvania MSA # 39740 is not inconsistent with the bank's overall High Satisfactory performance under the lending test.

In the counties of Monroe and Schuylkill, which are non-metropolitan areas, the bank's performance is not inconsistent from the bank's overall High Satisfactory performance. Refer to Tables 1 through 13 in appendix C for the facts and data that support these conclusions.

## **INVESTMENT TEST**

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

The bank's performance under the investment test is rated "High Satisfactory."

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

HNB has a good level of qualified investments and grants and exhibited a good responsiveness to credit and community economic development needs. Investment opportunities do exist but there is competition for these opportunities.

During the evaluation period, HNB invested \$11.5 million in a CRA mutual fund. The concept of the fund is to allow the bank to purchase shares in a CRA-dedicated mutual fund. The fund helps the bank to identify community development credit needs within its AA, and then allocates specific underlying mortgage backed securities. In October 2004 the bank invested \$2.7 million into this fund. The investment is secured by MBS, which were used to fund home mortgages to low- and moderate-income individuals and families within the bank's AA. The remaining \$8.8 million portion of this mutual fund benefits a broader statewide/regional area, and management designated these investments to the Philadelphia metropolitan division (MD). They are discussed below under the heading of Statewide/Broader Regional Area.

In April of 2007 HNB purchased \$2.3 million of residential mortgage backed securities in a CRA MBS Pool originated by a national mortgage lender. All of the loans are within the bank's MD and MSAs. All loans were originated to low- and moderate-income borrowers (<80% of HUD median income), or in low- and moderate-income geographies (<80% of MSA median.)

All prior investments have matured or been liquidated. HNB made 63 grants and donations for a total of \$108 thousand to numerous organizations that provide economic development, affordable housing, and community services to low- and moderate-income individuals.

During the evaluation period, HNB donated \$648 thousand to 54 non-profit organizations through the Pennsylvania Department of Community & Economic Development Education Improvement Tax Credit Program. The recipient organizations provided educational programming and scholarships for youth throughout the bank's nine-county market and met state guidelines for program content, reach, demographics served, need and demonstrated results. In return the bank qualified for a 75% tax credit up to \$200 thousand maximum per year. The income test for a student to receive funds from an approved recipient organization is defined by the state as ".....not more than \$50,000, except that an additional income allowance of \$10,000 is permitted for the student and each other dependent (as defined by the IRS) living within the same household." The bank cannot always ensure that the donations benefit low- or moderate-income individuals, or low- or moderate-geographies as defined by 12 CFR 25.12,

nevertheless these services primarily promote general community welfare by assisting needy individuals. These figures were not included in Table 14.

### **Statewide/Broader Regional Area**

The following investments benefit a broader statewide/regional area and management designated these investments to the Philadelphia MD. These investments will be reflected on the Statewide/Regional Investment line in the investment tables. HNB invested \$2.5 million in the CRA mutual fund to purchase two Pennsylvania Housing Finance Agency Rental Housing Bonds. These bonds funded the purchase, construction or refinance of rental properties for low- and moderate-income individuals and families. Subsequently, in December 2005 the bank made another investment in the CRA mutual fund through the purchase of \$6.3 million of Commonwealth of Pennsylvania bonds issued by the Commonwealth Financing Authority (CFA). The CFA was formed under Pennsylvania law in 2004 to work jointly with the Department of Community and Economic Development to formulate an Economy Stimulus Package through the funding of job-creating projects and community revitalization. This investment demonstrates a good responsiveness to credit and community development needs.

In June 2007, the bank committed \$1 million and to date has funded \$519 thousand to purchase an interest in a mezzanine debt fund from an SBA licensed Small Business Investment Company (SBIC). The bank's SBIC investments benefit HNB's AA.

### **Conclusions for Area Receiving Limited-Scope Reviews**

Based on limited-scope reviews, the bank's performance under the Investment Test in the Reading, Pennsylvania MSA # 39740 is not inconsistent with the bank's overall High Satisfactory performance under the lending test.

In the counties of Monroe and Schuylkill, which are non-metropolitan areas, the bank's performance is not inconsistent from the bank's overall High Satisfactory performance. Refer to Tables 1 through 14 in appendix C for the facts and data that support these conclusions.

## **SERVICE TEST**

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

The bank's performance under the Service Test is rated "High Satisfactory". Based on full-scope reviews, the bank's performance in the Philadelphia, Pa. MD # 39764 and the Allentown, Bethlehem, Easton, Pa. MSA # 10900 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.

HNB's delivery systems are accessible to geographies and individuals of different income levels throughout the Philadelphia, Pa. MD # 37964. In the Philadelphia MD there is only one low-income census tract. The bank does not have any branches in this tract. Only 0.26% of

the entire population of the Philadelphia MD lives in this low-income geography. Two HNB branches are a moderate driving distance from this tract. There are 17 moderate-income tracts in Philadelphia MD # 37964, which account for 5.10% of the total population of the MD. The bank has one branch in one of the moderate-income tracts. There are numerous branches within a moderate driving distance to a vast majority of the remaining moderate-income tracts.

HNB's delivery systems are accessible to geographies and individuals of different income levels throughout the Allentown, Bethlehem, Easton MSA # 10900. In MSA # 10900 there are six low-income census tracts. The bank does not have any branches in these low-income tracts. Only 5.23% of the population of the MSA lives in these tracts. Nevertheless, one branch is located in a moderate-income tract, adjacent to and a near driving distance to the six contiguous low-income tracts. There are 13 moderate-income tracts in MSA # 10900. The bank has four branches in the moderate-income tracts, and 12 of the moderate-income tracts have a branch located in an adjacent tract, within a short driving distance. The 13 moderate-income tracts account for 25.39% of the total population of MSA # 10900.

Changes in branch locations, mostly resulting from consolidation of holding company subsidiary banks, have enhanced the accessibility of HNB's service delivery systems to its customers. At the prior evaluation the bank did not have any branches in low- or moderate-income geographies. A synopsis of branch activity is as follows: The Philadelphia, Pa. MD # 37964 increased their number of branches by ten. The bank opened four new branches (two middle-income and two upper income), acquired three branches through mergers (all upper-income), consolidated four subsidiary bank branches into HNB (one moderate-income and three middle-income), and sold one branch (upper-income). The bank still does not have any branches in low-income tracts, and increased its total of moderate-income branches to one as a result of subsidiary consolidation. The Allentown, Bethlehem, Easton, Pa. MSA # 10900 increased their branches by nine. Eight of the branches were obtained through consolidation with subsidiary banks (four in moderate-income tracts and five in middle-income tracts). One branch is new, and is located in a middle-income tract. The Reading, Pa. MSA # 39740 increased its number of branches by three. One was by merger (upper-income), and the other two were by subsidiary consolidation (one upper-income and one middle-income). The bank increased its number of branches in Monroe-Schuylkill Counties by one. Two branches were added by subsidiary consolidation (one middle-income and one moderate-income). The bank sold the Schuylkill County branch located in the moderate-income census tract. The net result is the bank has increased their number of branches in moderate-income tracts by five strictly as a result of subsidiary consolidation. The bank acquired one branch in Wayne County, not considered to be in its AAs, and sold the branch shortly after acquisition. The branch was located in a middle-income census.

HNB's hours and services allow low- and moderate-income individuals accessibility to all banking products. With the exception of the four retirement community limited service branches, all full service branches provide extended evening hours at least one night per week. In addition, all full service branches offer Saturday hours. The exception is where two branches are located within the same community, then only one of the branches offers Saturday hours. One shopping center office in Harleysville offers Sunday hours for both lobby and drive in.

HNB's alternative delivery system is its ATM network. Thirty-nine of the bank's full service branches are equipped with ATMs, four of which are located in moderate-income tracts. The bank also has a network of 13 cash dispensing machines. One is located in a limited service branch, and the remaining 12 are located at remote retail stores throughout the AAs. Five of the cash dispensing machines are located in moderate-income geographies. In addition, Harleysville National Bank is a member of a national surcharge-free ATM network. This means that HNB customers can make ATM withdrawals free at any of over 32 thousand nationwide network ATMs. These network ATMs are located in many of the national chain mass merchandise stores, national food chains, drug chains, and large oil company service stations. HNB also offers alternative delivery systems in the form of bank-by-phone and Internet banking. These services allow customers to obtain deposit, loan account and investment account information, transfer funds, pay bills electronically, and reconcile their account.

The bank offers a full array of loan and deposit products and services which can assist low- and moderate-income individuals, which include free checking, free internet banking, free checks, free debit-card, and free bill pay when a minimum \$100 balance is maintained. IRAs are available with a minimum \$100 opening deposit and minimum contributions of \$25. A complete listing of bank products and services, hours, location, etc. can be found on their website: <http://www.harleysvillebank.com>.

### **Community Development Services**

HNB's performance in providing community development services is good. Senior bank management, middle management and bank employees are actively involved in various rolls in numerous community development organizations that have as their primary mission the support of low- and moderate-income individuals and families and the revitalization of low- and moderate-income geographies.

In the Philadelphia, Pa. MD # 37964, bank employees are actively involved as board members or high level of leadership rolls in 37 community development organizations. The President and CEO sits as President of a local united nation-wide fund drive that provides funds to organizations that assist low- and moderate-income individuals and families. The bank was one of the founding members of a regional community development lending organization. The organization is dedicated to affordable housing and community revitalization and addressing the needs of low- and moderate-income people throughout Bucks and Montgomery Counties. It also provides loans to small businesses that would not normally obtain funding through traditional banking channels. The compliance officer is the treasurer of the Baseball Bash. This is a group of financial organizations that raises money through participation in an annual softball game. Over the eighteen years of its existence the group has raised over \$137 thousand, which has been donated to charities that assist low- and moderate-income individuals who suffered devastating medical expenses. A commercial loan officer sits as a board member and mentor on SCORE, which provides professional business advice and counseling to small local businesses through the Small Business Administration. An assistant manager is a family support member for an international habitat organization that assists in the construction of homes, and allows low- and moderate-income individuals and families to provide sweat equity in the construction and purchase of their homes.

Branch Managers and employees are actively involved in three community development organizations in the Allentown, Bethlehem, Easton MSA # 10900. A branch manager is a

board member and treasurer of a community development organization whose mission is the revitalization of the downtown business district of a moderate-income geography. A branch manager succeeded a former deceased bank executive as a board member of a national club organization for young boys and girls, mostly from low- and moderate-income families whose mission is to provide positive youth experiences. The organization is located in a low-income geography. A branch manager is a board member and treasurer for a united nation-wide fund raising organization that provides funding to local organizations, many whose primary mission is to assist low –and moderate-income individuals and families. The organization is located in a moderate-income geography.

### **Conclusions for Area Receiving Limited-Scope Reviews**

Refer to Table 15 in appendix C for the facts and data that support these conclusions.

Based on limited-scope reviews, the bank's performance under the Community Development Service Test in the Reading, Pennsylvania MSA # 39740 is not inconsistent with the bank's overall High Satisfactory performance under the lending test.

In the counties of Monroe and Schuylkill, which are non-metropolitan areas, the bank's performance is not inconsistent from the bank's overall High Satisfactory performance.

## 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): January 1, 2003 to December 31, 2003 (2003 evaluation period) January 1, 2004 to December 31, 2006 (2004 to 2006 evaluation period)  Investment and Service Tests and CD Loans: April 5, 2004 to September 18, 2007	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
Harleysville National Bank and Trust Company (HNB) Harleysville, Pennsylvania	Home Purchase Mortgage Loans Home Improvement Mortgage Loans Home Refinance Mortgage Loans Small Business Loans Community Development Loans Qualified CD Investments Qualified CD Services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
No affiliates were reviewed as part of this examination.	N/A	N/A
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Philadelphia, Pa. MD # 37964	Full Scope	
Allentown, Bethlehem, Easton MSA # 10900	Full Scope	
Reading, Pa. MSA # 39740	Limited Scope	
*Counties Monroe, and Schuylkill	Limited Scope	

(\*) These counties (NA category) consist of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census Data

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

### Commonwealth of Pennsylvania

### Philadelphia, Pennsylvania MD # 37964

Demographic Information for Full-Scope Area: Philadelphia, Pennsylvania MD # 37964						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	307	0.33	5.54	40.39	53.09	0.65
Population by Geography	1,195,871	0.26	5.10	36.03	58.58	0.03
Owner-Occupied Housing by Geography	337,286	0.09	3.15	33.99	62.76	0.00
Businesses by Geography	90,146	0.28	5.33	33.94	60.45	0.01
Farms by Geography	2,412	0.04	2.90	32.79	64.26	0.00
Family Distribution by Income Level	321,526	11.37	14.34	21.81	52.48	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	82,648	0.58	10.18	46.51	42.73	0.00
Median Family Income = \$56,993						
HUD Adjusted Median Family Income for 2007 = \$69,800						
Households Below the Poverty Level = 5%						
				Median Housing Value = \$170,536		
				Unemployment Rate = 1.91%		

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census, 2006 HUD updated MFI and U.S. Department of Labor 8/07 not seasonally adjusted unemployment rate.

In 2004, the OMB redefined the boundaries of several MSAs and also established newly defined areas called Metropolitan Divisions (MDs) based upon the 2000 census. The bank's AA in this MD consists of a majority of portions of Bucks, Montgomery, and Chester counties in Pennsylvania. The Philadelphia, PA MD (37964) is a subset of the larger Philadelphia-Camden-Wilmington, PA-NJ-DE-MD, MSA (37980). Under the pre-2004 boundaries, these counties were part of the Philadelphia Multi-state MSA 6160. The AA complies with the CRA guidelines and does not arbitrarily exclude low- or moderate-income geographies.

According to the 2000 U.S. Census Data, there are 307 census tracts in this AA. There is one low-income tract, 17 moderate-income tracts, 124 middle-income tracts, 163 upper-income tracts, and 2 census tracts that have not been assigned an income classification.

The 2000 U.S. Census Data reported the total population of the assessment area is 1,195,871. Within this population there are 447,661 households of which 321,526 households are families. There are 463,705 housing units, of which, 83% are one to four family units, and 73% are owner occupied. Of this total amount there are 310 owner-occupied housing units in the low-income geographies, and 10,634 in the moderate-income geographies. Twenty-four percent are occupied rental units and three percent are vacant rental units. Owner-occupied housing is 73%. The median housing value is \$170,536.

The median family income is \$56,993 and the HUD updated MSA median family income is \$69,800. Approximately 5% of the households are below poverty. Approximately 12% of the families in the AA are low-income, 14% are moderate-income, 22% are middle-income, and 52% are upper-income.

Based on the housing values and the median family income, there is lack of affordability for a low-income individual or family to purchase a home. The average median housing value is \$170,536, and a low-income individual or family earns less than \$34,900.

According to the updated 2006 HUD Business Demographics, there are a total of 90,146 businesses in the AA. Approximately 0.28% of the businesses are located in low-income tracts, 5% are located in moderate-income tracts, 34% are located in middle-income tracts, and 60% are located in upper-income tracts. Approximately 68% of the businesses reporting have revenues less than \$1 million.

The primary industries in the AA are tourism, services and retail trade. Major employers within the AA include Rohm & Haas, Merck & Co., Wyeth Pharmaceutical and Research, Lockheed Martin Corp., and Crozer Keystone Health System. Other major employers include state government, various and numerous school systems, and a strong health provider network of numerous hospitals. The unemployment rate not seasonally adjusted, as of August 2007, for the Philadelphia MD is 4.6%, compared to the national unemployment rate of 4.6%.

HNB has a total of 30 full service banking offices located in the Philadelphia MD # 39764. This accounts for 70% of the bank's full service branches. In addition, HNB also operates four limited service branches, which are located in four retirement communities within the MD. Twenty-eight of the offices have extended evening hours at least one day a week, plus Saturday hours. In addition, one branch has Sunday hours. Twenty-eight of the banking offices offer drive-through facilities, and one has a walk-up facility. Twenty-eight of the offices are equipped with ATM machines, and there are 3 remote cash dispensing machines in the AA. A full line of traditional banking products and services are offered at all community offices.

Based on the June 30, 2006 FDIC Deposit Market Share Report, HNB ranked sixth out of 71 institutions with a 4.27% market share. Competition for both home mortgage and small loans to businesses, as well as deposits is extremely robust in this MD. Competitors are large national mortgage lenders, money center banks, and large credit card lenders. According to the June 30, 2006 FDIC Deposit Market Share Report the major competitors are Wachovia Bank, NA, ranking first with a 14.13 percent market share; GMAC Bank, ranking second with a 13.85 percent market share; Citizens Bank of Pennsylvania ranking third with a 12.35 percent market share; Commerce Bank, N.A. ranking fourth with a 8.17 percent market share and PNC Bank, NA ranking fifth with a 6.34 percent market share. Based upon 2005 HMDA Peer Mortgage Data, HNB ranked 22<sup>nd</sup> out of 674 lenders with 1.43 percent market share by number of loans. HMDA Peer Mortgage Data for 2006 is not yet available at this time. The top five lenders were Countrywide Home Loan, Ameriquest Mortgage Company, Wells Fargo Bank, NA, Wachovia Bank, and J.P. Morgan Chase Bank, NA. The top five lenders had a market share of 36 percent by number of loans. Based upon the 2006 Small Business Peer Data, HNB ranked 25<sup>th</sup> out of 160 lenders with a 0.31 percent market share by number of loans to small businesses. The top five lenders to small businesses were American Express,

Citibank (S.D.) NA, Chase Manhattan Bank USA, NA, Capital One F.S.B., and Advanta Bank Corp. The top five lenders had a market share of 72 percent by number of loans.

During this examination, we reviewed recent community contacts and visited community development web sites to determine the credit needs of this area. We determined there is an overall credit need for funding of all types to develop and sustain affordable housing in low - and moderate-income geographies. Due to the high cost of housing in this area and its rural nature, it is highly desired by developers. The stock of affordable housing does not keep up with the demand. There is also a strong need for loans to small businesses with incomes less than \$1 million beyond the scope of the entrepreneur's home equity value. A county funded industrial development authority assists small businesses in conjunction with primary lenders for real estate and equipment needs.

**Commonwealth of Pennsylvania**

**Allentown, Bethlehem, Easton, MSA # 10900**

Demographic Information for Full-Scope Area: Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	53	11.32	24.53	47.17	16.98	0.00
Population by Geography	252,861	5.23	25.39	48.69	20.69	0.00
Owner-Occupied Housing by Geography	71,683	1.76	22.84	52.33	23.07	0.00
Businesses by Geography	14,965	8.27	21.57	44.59	25.57	0.00
Farms by Geography	479	1.46	8.98	63.47	26.10	0.00
Family Distribution by Income Level	67,818	19.99	20.66	23.71	35.64	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	27,566	7.65	33.67	47.24	11.43	0.00
Median Family Income HUD Adjusted Median Family Income for 2007 Households Below the Poverty Level	= \$53,852 = \$65,900 = 9%	Median Housing Value Unemployment Rate		= \$105,934 = %2.34		

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 U.S. Census, 2006 HUD updated MFI and U.S. Department of Labor 8/07 not seasonally adjusted unemployment rate.

The bank’s AA in the Allentown, Bethlehem, Lehigh MSA # 10900 consists of the entire Carbon County, the western portion of Northampton County, and the north and central portion of Lehigh County. The AA complies with the CRA guidelines and does not arbitrarily exclude LMI geographies.

According to the 2000 U.S. Census Data, there are 53 census tracts in this AA. There are six low-income tracts, 13 moderate-income tracts, 25 middle-income tracts, 9 upper-income tracts.

The 2000 U.S. Census Data reported the total population of the assessment area is 252,861. Within this population there are 98,318 households and 67,818 households that are families. There are 109,583 total housing units, of which, 85% are one to four family units, and 65% are owner occupied. Of this total amount there are 1,263 owner-occupied housing units in the low-income geographies, and 16,371 in the moderate-income geographies. Twenty-four percent are occupied rental units and ten percent are vacant rental units. Owner-occupied housing is 65%. The median housing value is \$105,934.

The median family income is \$53,852, and the HUD updated MSA median family income is \$66,900. Approximately 9% of the households are below poverty. Approximately 11% of the families in the AA are low-income, 25% are moderate-income, 47% are middle-income, and 17% are upper-income.

Based on the housing values and the median family income, there is lack of affordability for a low-income individual or family to purchase a home. The average median housing value is \$105,934, and a low-income individual or family earns less than \$32,935.

According to the updated 2006 HUD Business Demographics, there are a total of 14,965 businesses in the AA. Approximately 8% of the businesses are located in low-income tracts, 22% are located in moderate-income tracts, 45% are located in middle-income tracts, and 25% are located in upper-income tracts. Approximately 68% of the businesses reporting have revenues less than \$1 million.

Based upon information obtained from the Pennsylvania Center for Workforce Information and Analysis (<http://www.paworkstats.state.pa.us/aboutsite.asp>), the primary industries in the AA are services and retail trade. The largest employers are state, local and federal governments, local school systems and universities, and health care networks. Major employers in Carbon County are Blue Mountain Health Care with over 500 employees. In Northampton County the major employers are Easton Hospital, Guardian Life Insurance, Lehigh University, and Saint Luke's Hospital. All of these organizations have between 1,000 and 4,999 employees each. In Lehigh County the largest employer is the Lehigh Valley Hospital and Health Network that employs between 5,000 and 9,999 workers. Other large employers that have between 1,000 and 4,999 employees are Air Products and Chemicals, Inc., B. Braun Medical Manufacturing Division, Dun & Bradstreet, PPL, and Good Shepherd Hospital. The unemployment rate not seasonally adjusted, as of August 2007, for MSA # 10900 is 4.3%, compared to the national unemployment rate of 4.6%.

HNB operates nine full service banking offices in the Allentown, Bethlehem, Easton, Pennsylvania MSA # 10900. This accounts for 21% of the bank's full service branches. All of the offices have extended evening hours at least one day a week. Seven of the offices have Saturday hours, seven of the offices offer drive-through facilities, and seven of the offices are equipped with ATM machines. In addition, there are six other remote cash dispensing machines located at various retail locations within MSA # 10900. A full line of traditional banking products and services are offered at all banking offices within the AA.

Based on the June 30, 2006 FDIC Deposit Market Share Report, HNB ranked tenth out of 27 institutions with a 2.60% market share. Competition for deposits is robust from both large money center banks as well as regional banks. According to the June 30, 2006 FDIC Summary of Deposits report, the major competitors are Wachovia Bank, NA, ranking first with a 26.49 percent market share; Keystone Nazareth Bank and Trust, a regional bank, ranked second with a 13.28 percent market share; Lafayette Ambassador Bank, another regional organization, ranked third with a 9.31 percent market share; PNC Bank, NA ranked fourth with a 7.73 percent market share; and Sovereign Bank ranked fifth with a 5.94 percent market share. Likewise competition for home mortgage loans is highly competitive from national mortgage companies, money center banks, and regional banks. Based upon the 2005 HMDA Peer Mortgage Data, HNB ranked 11<sup>th</sup> out of 467 lenders with 1.48 percent market share by number of loans. The top five lenders were Countrywide Home Loan, Ameriquest Mortgage Company, Wachovia Bank, Wells Fargo Bank, NA and Keystone Nazareth Bank and Trust, a regional bank. The top five lenders had a market share of 27 percent by number of loans. Competition for small business loans is likewise strong and robust from national credit card companies, and money center banks. Based upon the 2006 Small Business Peer Data, HNB

ranked 30<sup>th</sup> out of 86 lenders with a 0.18 percent market share by number of loans to small businesses. The top five lenders to small businesses were American Express, Citibank (S.D.) NA, Chase Manhattan Bank USA, NA, Capital One F.S.B., and Advanta Bank Corp. The top five lenders had a market share of 64 percent by number of loans.

During this examination, we reviewed recent community contacts to determine the credit needs of this area. We determined there is an overall credit need for funding to develop affordable housing, flexible home repair loans, access to funding for small businesses, education on how to qualify for small business loans, and education on how to obtain small business loans.

## 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.

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**

<b>LENDING VOLUME</b>		<b>Geography:</b> Pennsylvania						<b>Evaluation Period:</b> January 1, 2004 to December 31, 2006				
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>												
Phila., Pa. # 37964	72.71	2,604	256,968	2,231	359,882	0	0	10	578	4,845	617,428	68.10%
Allentown, Pa. # 10900	19.50	1,068	62,211	229	22,660	0	0	0	0	1,297	84,871	15.99%
<b>Limited Review:</b>												
Reading MSA # 39740	5.31	212	16,342	141	26,391	0	0	0	0	353	42,733	10.12%
NA –Monroe-Schuylkill	2.48	138	8,817	27	2,436	0	0	0	0	165	11,253	5.78%

\* Loan Data as of December 31, 2006. Rated area refers to either the state or multi-state MA rating area.

\*\* The evaluation period for Community Development Loans is April 5, 2004 to September 18, 2007.

\*\*\* Deposit Data as of June 30, 2006. Rated Area refers to either the state, multi-state MA, or institution, as appropriate.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE		Geography: Pennsylvania						Evaluation Period: January 1, 2004 to December 31, 2006							
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	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>															
Phila. Pa. # 37964	522	58.72	0.09	0.38	3.15	3.64	33.99	39.27	62.76	56.70	0.55	0.00	0.57	0.60	0.52
Allentown, Pa. # 10900	275	30.93	1.76	0.00	22.84	24.36	52.33	66.91	23.07	8.73	1.09	0.00	0.96	1.58	0.62
<b>Limited Review:</b>															
Reading, Pa. # 39740	52	5.85	0.00	0.00	0.00	0.00	67.41	55.77	32.59	44.23	0.44	0.00	0.00	0.39	0.54
NA-Monroe-Schuylkill	40	4.50	0.00	0.00	10.38	7.50	59.97	87.50	29.65	5.00	1.19	0.00	1.20	2.03	0.21

\* Based on 2005 Peer Mortgage Data: Eastern 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 Census information.

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

Geographic Distribution: HOME IMPROVEMENT			Geography: Pennsylvania				Evaluation Period: January 1, 2004 to December 31, 2006					Market Share (%) by Geography				
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ*** Units	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Phila. Pa. # 37964	764	63.77	0.09	0.00	3.15	2.49	33.99	35.99	62.76	61.52	3.37	0.00	3.14	3.06	3.72	
Allentown, Pa. # 10900	337	28.13	1.76	0.00	22.84	29.08	52.33	69.14	23.07	1.78	5.90	0.00	8.19	7.14	0.61	
<b>Limited Review:</b>																
Reading, Pa. # 39740	60	5.01	0.00	0.00	0.00	0.00	67.41	68.33	32.59	31.67	3.37	0.00	0.00	3.84	2.41	
NA-Monroe-Schuylkill	37	3.09	0.00	0.00	10.38	13.51	59.97	70.27	29.65	16.22	3.92	0.00	8.33	3.87	3.27	

\* Based on 2005 Peer Mortgage Data: Eastern 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 Census information.

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

Geographic Distribution: HOME MORTGAGE REFINANCE			Geography: Pennsylvania				Evaluation Period: January 1, 2004 to December 31, 2006					Market Share (%) by Geography				
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Over all	Low	Mod	Mid	Upp	
	#	% of Total**	% Owner Occ*** Units	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans	% Owner Occ Units***	% BANK Loans						
<b>Full Review:</b>																
Phila. Pa. # 37964	1,306	67.91	0.09	0.08	3.15	1.99	33.99	41.50	62.76	56.43	1.33	0.00	0.55	1.54	1.26	
Allentown, Pa #10900	456	23.71	1.76	0.00	22.84	32.46	52.33	62.94	23.07	4.61	2.23	0.00	3.22	2.66	0.37	
<b>Limited Review:</b>																
Reading, Pa. # 39740	100	5.20	0.00	0.00	0.00	0.00	67.41	70.00	32.59	30.00	0.88	0.00	0.00	0.97	0.70	
NA-Monroe-Schuylkill	61	3.17	0.00	0.00	10.38	9.84	59.97	80.33	29.65	9.84	1.88	0.00	2.17	3.70	0.23	

\* Based on 2005 Peer Mortgage Data: Eastern 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 Census information.

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

Geographic Distribution: SMALL LOANS TO BUSINESSES			Geography: PENNSYLVANIA						Evaluation Period: January 1, 2004 to December 31, 2006								
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	Upp
<b>Full Review:</b>																	
Phila. PA. # 37964	2,217	84.81	0.28	0.09	5.33	3.61	33.94	29.91	60.45	66.40	0.31	0.00	0.37	0.37	0.29		
Allentown, Pa #10900	229	8.74	8.27	0.87	21.57	31.88	44.59	56.77	25.57	10.48	0.19	0.13	0.51	0.19	0.03		
<b>Limited Review:</b>																	
Reading, PA. #39740	141	5.38	0.00	0.00	0.00	0.00	65.33	62.41	34.67	37.59	0.44	0.00	0.00	0.39	0.54		
NA-Monroe-Schuylkill	27	1.03	0.00	0.00	8.20	7.41	54.91	81.48	36.89	11.11	0.11	0.00	0.23	0.15	0.07		

\* Based on 2006 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 (2006).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE			Geography: Pennsylvania				Evaluation Period: January 1, 2004 to December 31, 2006					Market Share				
MA/Assessment Area:	Total Home Purchase 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>																
Phila. PA. # 37964	522	58.72	11.37	9.96	14.34	22.22	21.81	25.67	52.48	42.15	0.61	1.50	1.05	0.61	0.46	
Allentown, PA. #10900	275	30.93	19.99	13.45	20.66	33.09	23.71	25.82	35.64	27.64	1.27	2.82	1.38	1.51	0.65	
<b>Limited Review:</b>																
Reading, PA #39740	52	5.85	10.83	13.46	15.46	11.54	25.26	25.00	48.46	50.00	0.52	1.10	0.39	0.26	0.70	
NA-Monroe-Schuylkill	40	4.50	14.99	15.00	18.36	20.00	22.83	17.50	43.82	47.50	1.41	2.70	2.26	2.13	0.78	

\* Based on 2005 Peer Mortgage Data: Eastern Region.

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

\*\*\* Percentage of Families is based on the 1990 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: PENNSYLVANIA						Evaluation Period: January 1, 2004 to December 31, 2006						
MA/Assessment Area:	Total Home Improvement 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	Mo d	Mid	Upp
<b>Full Review:</b>															
Phila. PA. # 37964	772	64.01	11.37	10.36	14.34	18.91	21.81	29.27	52.48	41.45	3.50	4.74	3.82	4.00	3.02
Allentown, PA. # 10900	337	27.94	19.99	21.66	20.66	22.26	23.71	30.86	35.64	25.22	6.04	12.24	7.63	6.21	3.23
<b>Limited Review:</b>															
Reading, PA. # 39740	60	4.98	10.83	6.67	15.46	28.33	25.26	35.00	48.46	30.00	3.44	1.94	3.65	3.83	3.45
NA-Monroe-Schuylkill	37	3.07	14.99	8.11	18.36	10.81	22.83	27.03	43.82	54.05	4.05	8.33	2.22	5.19	3.43

\* Based on 2005 Peer Mortgage Data: Eastern Region.

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

\*\*\* Percentage of Families is based on the 1990 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: Pennsylvania						Evaluation Period: January 1, 2004 to December 31, 2006						
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>															
Phila. PA. # 37964	1,310	67.98	11.37	9.77	14.34	22.06	21.81	28.02	52.48	40.15	1.55	3.42	2.22	1.52	1.20
Allentown, PA. # 10900	456	23.66	19.99	18.20	20.66	29.39	23.71	30.92	35.64	21.49	2.58	4.81	3.32	2.49	1.63
<b>Limited Review:</b>															
Reading, PA.# 39740	100	5.19	10.83	9.00	15.46	17.00	25.26	31.00	48.46	43.00	1.02	1.49	0.81	0.84	1.18
NA-Monroe-Schuylkill	61	3.17	14.99	13.11	18.36	18.03	22.83	18.03	43.82	50.82	2.20	3.95	2.80	1.64	2.18

\* Based on 2005 Peer Mortgage Data: Eastern Region.

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

\*\*\* Percentage of Families is based on the 1990 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**

<b>Borrower Distribution: SMALL LOANS TO BUSINESSES</b>		<b>Geography: Pennsylvania</b>			<b>Evaluation Period: January 1, 2004 to December 31, 2006</b>				
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>									
Phila. PA. # 37964	2,231	84.89	67.73	38.14	59.61	20.93	19.45	0.31	0.55
Allentown,PA. #10900	229	8.71	68.85	38.86	67.25	24.89	7.86	0.19	0.37
<b>Limited Review:</b>									
Reading, PA. # 39740	141	5.37	67.22	31.91	58.16	19.15	22.70	0.75	1.34
NA-Monroe-Schuylkill	27	1.03	73.33	55.56	81.48	7.41	11.11	0.11	0.29

\* Based on 2006 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&B 2005).

\*\*\*\* 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 [Percentage] of small loans to businesses originated and purchased by the Bank.

**Table 14. Qualified Investments**

<b>QUALIFIED INVESTMENTS</b>		<b>Geography: PENNSYLVANIA</b>				<b>Evaluation Period: April 5, 2004 to September 18, 2007</b>			
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>									
Phila. PA. # 37964	0	000	53	5,101	53	5,101	0	0	000
Allentown,PA. #10900	0	000	10	7	10	7	0	0	0
<b>Limited Review:</b>									
Reading, PA # 39740	0	000	0	000	0	000	0	0	0
NA-Monroe-Schuylkill	0	000	0	000	0	000	0	0	0
Statewide/Regional	0	000	3	9,319	3	9,319		1	481

\* '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**

<b>DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS</b>																	
<b>Geography:</b> Pennsylvania <b>Evaluation Period:</b> April 5, 2004 to September 18, 2007																	
MA/Assessment Area:	Deposit s	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposit s 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>																	
Phila. PA.# 37964		34	72.34%	0%	3%	35%	62%	11	1	0	+1	-1	+11	11.37	14.34	21.81	52.48
Allentown, PA. 10900		9	19.15%	0%	34%	55%	11%	9	0	0	+4	+5	0	19.99	20.66	23.71	35.64
<b>Limited Review:</b>																	
Reading, PA. #39740		3	6.38%	0%	0%	33%	67%	3	0	0	0	+1	+2	10.83	15.46	25.26	48.46
NA-Monroe-Schuylkill		1	2.13%	0%	0%	0%	100%	2	1	0	0	+1	0	14.99	18.36	22.83	43.82
Wayne County									1								