



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

March 23, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Pennsville National Bank
Charter Number 15733

170 South Broadway
Pennsville, NJ 08070

Office of the Comptroller of the Currency

EASTERN PENNSYLVANIA FIELD OFFICE
3325 Street Road Suite 120
Bensalem, PA 19020-2025

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The major factors that support this rating include:

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

SCOPE OF EXAMINATION

Pennsville National Bank (PNB) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2006 through December 31, 2008, as this is representative of its lending strategy since the last CRA examination. Based upon the bank's business strategy and the loans originated or purchased during the evaluation period, we determined that residential mortgage loans are the bank's primary loan product. The residential mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR). The HMDA-LARs were tested prior to this review and found to be reliable for the purposes of our analysis. Therefore, we used the HMDA data from January 1, 2006 through December 31, 2008 to evaluate the bank's home mortgage loan performance.

DESCRIPTION OF INSTITUTION

PNB is a \$178 million locally owned community bank headquartered in Pennsville, New Jersey. The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products as well as trust services. The bank's website at www.pennsvillenb.com provides a listing and description of all deposit, loan, and trust services. PNB is a wholly owned subsidiary of Penn Bancshares, Inc., a one-bank holding company. Both the bank and the holding company are located in Salem County, New Jersey. The bank has one subsidiary, Denn and Company, which is a Delaware chartered company that holds the bank's investment securities. There has been no merger or acquisition activity since the last CRA examination.

PNB services Salem County and the southern portion of Gloucester County through its

main office and four branches. One of the branches, the Woodstown Branch, was opened in June 2008. The main office, Elmer, Pedricktown, and Woodstown branches are all located in middle-income census tracts in Salem County. The Carneys Point Branch is located in a low-income census tract in Salem County. Although there are no branches in Gloucester County, the Elmer branch is in close proximity to Gloucester County. Therefore, the Elmer branch services the bank's six Gloucester County geographies.

Full service banking is provided at the main office and at each branch, which includes drive through and lobby services. Extended banking hours are available during the business week and on Saturday at all five locations. Automated Teller Machines (ATMs) are also available at all five locations. An additional offsite cash dispensing machine is located at the Salem Community College. No branches were closed during the evaluation period.

As of December 31, 2008, PNB reported \$68 million in net loans, \$166 million in total deposits, and Tier One capital of \$11 million. The net loans and leases to total assets ratio was 38%. The bank's loan portfolio consists of residential real estate loans (68%), commercial and commercial real estate loans (15%), construction and development loans (1%), consumer loans (2%), and municipal loans (14%). Within the residential mortgage portfolio, the bank originates long-term mortgage loans for sale on the secondary market. According to the bank's strategic plan, residential mortgage lending is the bank's primary business focus.

Numerous national, state, and savings banks, as well as branches of several regional institutions, provide major deposit and lending competition. According to the June 30, 2008 Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, PNB ranked third out of eight institutions in Salem County with a 15.42% deposit market share. Competitors in Salem County include: The Bank, ranking first with a 29.37% deposit market share and Harvest Community Bank, ranking second with a 16.21% deposit market share. PNB has no reportable deposit market share in Gloucester County. Competitors in Gloucester County include TD Bank, ranking first out of twenty-two institutions with a 25.23% deposit market share, The Bank, ranking second with a 14.12% deposit market share, and Wachovia Bank, ranking third with a 10.10% deposit market share.

There are no known legal, financial or other factors impeding PNB's ability to help meet the needs of its community. PNB's last CRA evaluation was performed in October 2003, and PNB was rated "Satisfactory".

DESCRIPTION OF ASSESSMENT AREA(S)

PNB has defined the entire county of Salem and the southern portion of Gloucester County as its AA. These counties are located in the southwest region of New Jersey, anchored by the cities of Salem and Woodbury. Salem County is part of the Wilmington, DE-MD-NJ Metropolitan Division (MD) #48864 and consists of 24 census tracts. All 24 census tracts are part of the bank's AA. Gloucester County is part of the

Camden, NJ MD #15804 and consists of 59 census tracts. However, only 6 of the 59 census tracts are part of the bank's AA. Given both counties are from different MDs, we will review each county separately as the Salem County AA and the Gloucester County AA for our analysis.

Salem County AA

Demographic Information for the Salem County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	24	8.33	20.83	70.83	0.00
Population by Geography	64,285	8.09	16.50	75.41	0.00
Owner-Occupied Housing by Geography	17,734	3.80	14.42	81.78	0.00
Businesses by Geography	3,479	5.35	15.75	78.90	0.00
Farms by Geography	284	0.70	9.51	89.79	0.00
Family Distribution by Income Level	17,494	22.65	20.90	24.60	31.85
Household Distribution by Income Level	7,619	13.69	21.60	64.71	0.00
Census Median Family Income (MFI)		60,622	Median Housing Value		104,401
HUD-Adjusted MFI: 2008		73,900	Unemployment Rate*		8.30%
Families Below the Poverty Level		9%			

Source: 2000 US Census; 2008 HUD updated MFI; *Salem County unemployment rate as of December 2008

The bank's Salem County AA totals 24 census tracts. It is comprised of 2 low-income tracts (8%), 5 moderate-income tracts (21%), and 17 middle-income tracts (71%). There are no upper-income tracts. The county is not considered a distressed or underserved area. The bank's Salem County AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 US Census data, the population of this AA is 64,285, comprising 59% urban population and 41% rural population. This AA contains 17,494 families and 24,316 households. Approximately 23% of the families are categorized as low-income, 21% as moderate-income, 24% as middle-income, and 32% as upper-income. Approximately 2,213 or 9% of households are below the poverty level. The 2008 HUD updated median family income was \$73,900 for this AA and the median value of a home was \$104,401. There are 26,158 housing units with owner-occupied units at 68%, rental-occupied units at 25%, and vacant-housing units at 7% in this AA.

The economy for Salem County has slowed somewhat, reflective of the nation's economic slowdown over the past year. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Salem County was 8.30% compared to the state unemployment rate of 6.80% and the national unemployment rate of 7.20%. The county's top five industries by distribution of employees were healthcare and social assistant, manufacturing, retail trade, utilities, and transportation and warehouse. According to the 2008 Salem County Economic Resource Guide, the top five employers

for the county included: PSEG, E.I. DuPont, Mannington Mills, Memorial Hospital of Salem County, and Atlantic City Electric.

During this examination we contacted a local government economic development agency. The agency’s mission is to promote economic development in Salem County. The contact advised that banks have been very responsive to affordable housing needs within the county, but not small business lending. According to this contact, there are opportunities for small business lending. In particular, small business lending is needed for those companies looking to expand or to prevent closing

Gloucester County AA

Demographic Information for the Gloucester County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	6	0.00	0.00	50.00	50.00
Population by Geography	25,838	0.00	0.00	44.90	55.10
Owner-Occupied Housing by Geography	7,553	0.00	0.00	45.62	54.38
Businesses by Geography	1,994	0.00	0.00	42.68	57.32
Farms by Geography	92	0.00	0.00	23.91	76.09
Family Distribution by Income Level	6,965	14.53	13.65	23.19	48.63
Household Distribution by Income Level	1,963	0.00	0.00	54.71	45.29
Census Median Family Income (MFI)		62,032	Median Housing Value		150,986
HUD-Adjusted MFI: 2008		78,300	Unemployment Rate*		6.80%
Families Below the Poverty Level		5%			

Source: 2000 US Census; 2008 HUD updated MFI; *Gloucester County unemployment rate as of December 2008

The bank’s Gloucester County AA totals 6 census tracts. It is comprised of 3 middle-income tracts (50%) and 3 upper-income tracts (50%). There are no low- or moderate-income tracts. None of the six census tracts are considered distressed or underserved tracts. The bank’s Gloucester County AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

According to the 2000 US Census data, the population of this AA is approximately 25,838. This AA contains 6,965 families and 8,673 households. Approximately 14% of the families are categorized as low-income, 14% as moderate-income, 23% as middle-income, and 49% as upper-income. Approximately 468 or 5% of households are below the poverty level. The 2008 HUD updated median family income was \$78,300 for this AA and the median value of a home was \$150,986. There are 9,078 housing units with owner-occupied units at 83%, rental-occupied units at 12%, and vacant-housing units at 5% in this AA.

The economy for Gloucester County has remained fairly stable in spite of the nation’s economic slowdown over the past year. According to the Bureau of Labor Statistics, the December 2008 unemployment rate for Gloucester County was 6.80% compared to the

state unemployment rate of 6.80% and the national unemployment rate of 7.20%. The county's top five industries by distribution of employees were retail trade, healthcare and social assistant, manufacturing, accommodation and food services, and wholesale trade. According to the 2008 Gloucester County Fast Facts, the top five employers for the county included: Underwood Memorial Hospital, Rowan University, Sony Music, Emery Worldwide, and Exxon Mobil Research and Engineering.

During this evaluation, we reviewed a recent community contact for Gloucester County, New Jersey. According to this community contact, there is an overall need for affordable housing for low- to moderate-income individuals and families as well as programs for first time home buyers. Affordable housing is lacking in the AA due to rising real estate costs and development costs. The contact indicated a need for local lenders to donate home sites for the development of affordable housing, to provide construction financing for affordable housing development, and to participate in down payment programs for first time homebuyers. Small business and small farm lending are also a recognized credit need. More local lenders need to participate in the Small Business Administration (SBA) loan programs and the US Department of Agriculture (USDA) rural loan programs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's overall lending performance is "Satisfactory". This conclusion is based upon the results of the following lending tests used to determine if the bank is meeting the credit needs of the AA. Due to the bank's minimal presence and lending in the Gloucester County AA, we placed more emphasis on the bank's performance in the Salem County AA. All criteria of the specific lending tests are documented below:

Loan-to-Deposit Ratio (LTD)

PNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the twenty quarters since the last CRA examination was 40.28%. During this time period, the ratio ranged from a quarterly low of 36.55% to a quarterly high of 43.67%. The quarterly average net loan-to-deposit ratio for a custom peer group of seven similarly sized national banks in the state of New Jersey was 77.21% over the same twenty quarters. While the bank's quarterly average net loan-to-deposit ratio is significantly lower than the custom peer group, it is reasonable when taking into consideration the bank's lending market share, the competition for loans, and the bank sells mortgage loans in the secondary market as a way to manage interest rate risk and credit risk.

Lending in Assessment Area

The bank's lending in its AA exceeds the standard for satisfactory performance. A substantial majority of PNB's residential mortgage loans were originated within the bank's AA. During the evaluation period, 96% of the residential mortgage loans originated by the bank were made within the bank's AA.

Lending to Borrowers of Different Incomes

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

Salem County AA

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In our analysis, we considered how affordable it was for low-income individuals to purchase a home and we considered the poverty rate. The average median housing value in this AA was \$104,401. The 2008 HUD updated median family income was \$73,900. This means that low-income individuals earn less than \$36,950. Additionally, 9% of households are below the poverty level. Based on the average median housing value and what low-income individuals earn, the opportunities for home purchase, home improvement, and home refinance lending to low-income individuals would be limited. Therefore, we placed more emphasis on the bank's moderate-income performance.

The percentage of home purchase loans made to low-income borrowers is lower than the percentage of low-income families in the AA. However, PNB's market share of home purchase loans to low-income borrowers exceeds the bank's overall market share of home purchase loans in the AA. The percentage of home purchase loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The percentage of home improvement loans made to low-income borrowers is lower than the percentage of low-income families in the AA. However, PNB's market share of home improvement loans to low-income borrowers exceeds the bank's overall market share of home improvement loans in the AA. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. PNB's market share of home improvement loans to moderate-income borrowers exceeds the bank's overall market share of home improvement loans.

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

The following, Table 2, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008 as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	22.65	13.89	20.90	22.22	24.60	27.78	31.85	36.11
Home Improvement	22.65	12.84	20.90	23.85	24.60	28.90	31.85	34.40
Home Refinance	22.65	12.03	20.90	18.35	24.60	32.91	31.85	36.71

Source:HMDA data 1/1/06-12/31/08, Income was not available for 1.3% of the home improvement loans originated and 2.4% of the home refinance loans originated;2008 Dunn and Bradstreet data.

Gloucester County AA

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

There were no home purchase loans made in the Gloucester County AA, and there were only three home refinance loans made in the Gloucester County AA. Therefore, an analysis of home purchase and home refinance lending in Gloucester County would not be meaningful and was not performed.

Out of the nine home improvement loans made in the Gloucester County AA, none were made to low-income borrowers and four were made to moderate-income borrowers. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA.

The following, Table 2, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2006 through December 31, 2008 as compared to the percent of families in each income category.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	14.53	0.00	13.65	0.00	23.19	0.00	48.63	0.00
Home Improvement	14.53	0.00	13.65	44.44	23.19	22.22	48.63	33.33
Home Refinance	14.53	0.00	13.65	0.00	23.19	0.00	48.63	100.00

Source:HMDA data 1/1/06-12/31/08,Income was not available for 1.3% of the home improvement loans originated and 2.4% of the home refinance loans originated;2008 Dunn and Bradstreet data.

Geographic Distribution of Loans

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

Salem County AA

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

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

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

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

The following, Table 3, details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through December 31, 2008.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Salem County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	3.80	2.78	14.42	11.11	81.78	86.11	0.00	0.00
Home Improvement	3.80	1.36	14.42	11.31	81.78	87.33	0.00	0.00
Home Refinance	3.80	2.48	14.42	6.21	81.78	91.30	0.00	0.00

Source: HMDA data 1/1/06-12/31/08; 2008 Dunn and Bradstreet data.

Gloucester County AA

There are no low- or moderate-income geographies in the Gloucester County AA; therefore, an analysis of the bank’s loan distribution by geographies within the Gloucester County AA would not be meaningful and was not performed.

The following, Table 3, details the bank’s performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2006 through December 31, 2008.

Table 3 - Geographic Distribution of Residential Real Estate Loans in Gloucester County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	0.00	0.00	45.62	0.00	54.38	0.00
Home Improvement	0.00	0.00	0.00	0.00	45.62	77.78	54.38	22.22
Home Refinance	0.00	0.00	0.00	0.00	45.62	0.00	54.38	100.00

Source: HMDA data 1/1/06-12/31/08; 2008 Dunn and Bradstreet data.

Responses to Complaints

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

Fair Lending or Other Illegal Credit Practices Review

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