



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**August 6, 2007**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**1st Colonial National Bank  
Charter Number 23993**

**1040 Haddon Avenue  
Collingswood, NJ 08108**

**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, 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.**

1<sup>st</sup> Colonial National Bank (FCNB) has a **SATISFACTORY** record of meeting community credit needs.

- The quarterly average net loan-to-deposit ratio is reasonable at 66.07% based on the bank's size, financial condition, and routine sale of home mortgage loans to the secondary market.
- A substantial majority of FCNB's loans are made within its assessment area (AA).
- The distribution of borrowers reflects, given the demographics of the AA, reasonable penetration among individuals of different income levels and businesses of different sizes.
- FCNB's geographic distribution of loans within its AA reflects reasonable dispersion throughout the assessment area.

## **SCOPE OF EXAMINATION**

This Community Reinvestment Act (CRA) evaluation of 1<sup>st</sup> Colonial National Bank (FCNB) for Home Mortgage Disclosure Act (HMDA) data covers the period from January 1, 2004 through December 31, 2006. Both HMDA mortgages and loans to small businesses received a full scope review based upon the volumes. We sampled 21 loans to small business under \$1 million to assess performance. The sample period for loans to small businesses covered from January 1, 2004 to June 30, 2007. Other information for loans to small businesses was taken from Part II of the June 30, 2007 Report of Condition and Income and a list of outstanding loans as of June 30, 2007. Loans to small farms was not considered as FCNB only reported three loans to small farms at June 30, 2007. The loan-to-deposit analysis covered from March 31, 2002 to June 30, 2007. Financial data is as of June 30, 2007. The HMDA-LARS registers for the evaluation period were tested for accuracy and found to be appropriate for the purposes of this analysis. No other activities were considered as FCNB has no subsidiaries. Small Bank CRA Procedures from OCC Bulletin 2006-17 dated April 6, 2006 were used in performing the evaluation.

## **DESCRIPTION OF INSTITUTION**

FCNB is a locally owned institution headquartered in Collingswood, Camden County, New Jersey. The bank received its national charter on June 29, 2000, and remains a full service, intrastate community bank offering a standard array of traditional loan and deposit products. The bank's website [www.1stcolonial.com](http://www.1stcolonial.com) provides a listing and description of all deposit and loan services. FCNB is a wholly owned subsidiary of 1<sup>st</sup> Colonial Bancorp, Inc., a one-bank holding company established in June 2002. Neither the bank nor the holding company has any other subsidiaries. There has been no merger or acquisition activity.

FCNB has a main office and two branches. The main office is located in a middle-income

census tract in Camden County. Both branches were opened since the prior evaluation. The Cinnaminson Branch, opened 2005, is located in an upper-income census tract in Burlington County. The Westville Branch, opened 2003, is located in a moderate-income census tract in Gloucester County. All offices are equipped with an automated teller machine (ATM) and drive-up banking facilities. Extended banking hours are available during the business week at both the lobby and drive-up. The main office and the branches are also open Saturday mornings.

As of June 30, 2007, FCNB reported total assets of \$193 million. The balance sheet reflects \$116 million in loans, which is 60% of total assets, \$168 million in deposits and TIER 1 capital of \$18 million. **Table 1** below reflects the loan portfolio mix.

| <b>Table 1 - FCNB's Portfolio Mix as of June 30, 2007</b> |                              |                            |
|---|------------------------------|----------------------------|
| <b>Loan Category:</b>                                     | <b>\$ Outstanding (000s)</b> | <b>% of Loan Portfolio</b> |
| Secured by 1-4 family residences*                         | 47,043                       | 40.65%                     |
| Non-farm, non-residential                                 | 34,065                       | 29.44%                     |
| Construction and Land Development                         | 10,113                       | 8.74%                      |
| Commercial, Industrial and Agricultural                   | 13,718                       | 11.85%                     |
| Overdraft checking and consumer loans                     | 3,576                        | 3.09%                      |
| Other and Multi-family                                    | 7,214                        | 6.23%                      |
| <b>Total Gross Loans</b>                                  | <b>115,729</b>               | <b>100.00%</b>             |

*Source: June 30, 2007 Call Report*

*\* Includes closed end loans secured by first and junior liens, and revolving open-end loans. This figure is net of \$62.7 million of mortgages that were originated during the evaluation period and sold in the secondary mortgage market.*

The bank's primary lending focus is home mortgage and small business lending. Numerous locally based national, state and savings banks as well as branches of several regional institutions provide major deposit and lending competition. As of June 30, 2000, FCNB initiated a program to broker its mortgage loan applications to secondary market mortgage investors. Management reports 337 originations and \$59.1 million in sales to investors from 2003 to June 30, 2007.

There are no known legal, financial or other factors impeding FCNB's ability to help meet the credit needs of its community. FCNB's previous CRA examination was conducted as of July 8, 2002, and the bank was assigned an overall rating of Satisfactory.

## **DESCRIPTION OF CAMDEN, NJ METROPOLITAN DIVISION (MD)**

FCNB has defined the county of Camden, the south-western portion of Burlington County and the north-western portion of Gloucester County as its Assessment Area (AA). This designation reflects an expansion of the AA to remain consistent with the bank's new branch location in Gloucester County. The bank's AA totals 208 census tracts. It is comprised of 18 low-income tracts (8.7%), 32 moderate-income tracts (15.4%), 112 middle-income tracts (53.9%), 45 high-income tracts (21.6%), and 1 census tracts classified as N/A (0.5%). All of the census tracts are located in the Camden, NJ MD #15804. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas.

Based upon 2000 US Census data, the population of the AA is approximately 779,450. The AA contains 204,128 families and 290,087 households. Updated 2006 median family income was \$77,300 for the entire Camden, NJ MD and the median value of a home was \$120,061. There are approximately 84,926 households below the poverty level standard. Housing units within the AA totals 308,325. This total reflects 67.8% owner occupied, 26.2% rental and 6% vacant housing units. The unemployment rate at June 30, 2007, for the Camden, NJ MD was 4.3%. The local economy is stable and diverse with retail, manufacturing, and service industries providing the majority of employment opportunities. Significant employment opportunities are provided by local hospitals and by the county seats of both Camden and Burlington Counties, which are located within the AA. The bank's AA is also located within commutable distances to employment sources in Pennsylvania.

Camden County is an agricultural, industrial and residential area. The County is densely populated in its western portions, with the population density diminishing as one travels east. The County goes from urban to suburban to rural. A significant part of the county is still farmland. Approximately 20 percent of the eastern portion of the County is in the thinly populated Pine Barrens Region where development is restricted due to its environmentally sensitive nature. The economy of Camden County is diverse and strong and for the most part has made the transition from a manufacturing economy to a service economy, though not without difficulty over the past two decades. The largest employers in Camden County are the Virtua System, Lady of Lourdes Health Services, Kennedy Health System and Cooper Health System. Other major employers are financial institutions, the federal government (USPS), health care, automotive and food services.

FCNB's census tracts in Burlington County are located in industrial and residential areas. The area is stable. The three largest employers in Burlington County are Lockheed Martin, PHH Mortgage and Virtua Memorial Hospital. Other major employers are financial institutions, health care and manufacturers. Burlington County's diverse economy has enabled it to consistently maintain an unemployment rate below that of the state. From 1999 to 2005, the county's labor force grew by 10,900 or 4.7 percent, compared with 3.1 percent growth in the state's civilian labor force. This expansion was fueled mainly by the influx of new residents into the county.

Gloucester County is an agricultural, industrial and residential area, which is presently in a high growth and development stage, transforming this historically agricultural region. The three largest employers in Gloucester County are the Underwood Memorial Hospital System, Rowan University, and Kennedy Memorial Hospital. Other major employers are food packing and distribution services, marketing services, federal government postal service, communications and music industry. The county's website claims it has been consistently ranked among the top 28 counties for job growth nationwide since 2003.

Management indicates that the primary credit needs of its AA are small business, housing, and home improvement lending. We also contacted the Affordable Homes Group, Inc. to ascertain information on AA credit needs. This organization identified that housing, both home ownership and rental units are the primary mortgage credit needs of the AA.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's overall lending performance is satisfactory. This conclusion is based upon the results of the following specific lending tests used to determine if the bank is meeting the credit needs of the AA. Loan performance in the bank's AA was compared to 2000 Census demographic data. This comparison allows an assessment of the bank's HMDA and loans to small business lending performance to low- and moderate-income borrowers, low- and moderate-income geographies, and businesses of different sizes. In addition, sampling of loans to small businesses made between January 1, 2004 and June 30, 2007 and a listing of loans to small businesses as of June 30, 2007 were used in the evaluation.

### Loan-to-Deposit Ratio

FCNB's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and assessment area credit needs. The bank's quarterly average net loan-to-deposit ratio, over a twenty-two quarter period from March 31, 2002 to June 30, 2007 was 66.07%. This level increased from the 54% quarterly average loan-to-deposit ratio reported in the prior Public Evaluation. FCNB's average ratio is below the national peer average net loan-to-deposit ratio of 80.48% for the same timeframe. However, the peer group for new banks, defined as established within three years and less than \$25 million in assets, only applied to FCNB for first three calendar quarters of its existence instead of the usual 9 quarters. Therefore, the comparison against established banks for 6 of the 22 quarters of the period covered distorts the analysis for FCNB. FCNB is also an originator and seller of home mortgage loans. The bank sold \$59 million of home mortgage loans to the secondary market from 2003 to June 30, 2007. If only half of that was still on the balance sheet at June 30, 2007, the net loan-to-deposit ratios would have been 85.94%. That would exceed the national peer average loan-to-deposit ratio.

### Lending in Assessment Area

A substantial majority of its home mortgage and business loans were originated within the bank's AA. Both the number and dollar amount of reported loans originated within the AA for home mortgage loans are demonstrated in **Table 2**.

| <b>Table 2 - Lending in/out FCNB's Camden, NJ MD Assessment Area</b> |                        |          |                |          |                |                                |          |                |          |                 |
|--|------------------------|----------|----------------|----------|----------------|--------------------------------|----------|----------------|----------|-----------------|
| <b>(January 1, 2004 through December 31, 2006)</b>                   |                        |          |                |          |                |                                |          |                |          |                 |
|  | <b>Number of Loans</b> |          |                |          |                | <b>Dollar of Loans (\$000)</b> |          |                |          |                 |
|  | <b>Inside</b>          |          | <b>Outside</b> |          |                | <b>Inside</b>                  |          | <b>Outside</b> |          |                 |
|  | <b>#</b>               | <b>%</b> | <b>#</b>       | <b>%</b> | <b>Total #</b> | <b>\$</b>                      | <b>%</b> | <b>\$</b>      | <b>%</b> | <b>Total \$</b> |
| <b>Home Mortgage Loans</b>   | 317                    | 82.12%   | 69             | 17.88%   | 386            | \$32,304                       | 77.86%   | \$9,187        | 22.14%   | \$41,491        |

Source: 2004, 2005 & 2006 HMDA Data

The bank is not required to report small business loans; however, an analysis of all loans to small business outstanding at June 30, 2007 revealed that 84.50% of those loans by number were made within the bank's AA, and 81.21% of those loans by dollar were made within the bank's AA.

### Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes. **Table 3** below reflects the distribution by borrower income level of home mortgage loans.

| <b>Table 3 - Borrower Distribution of Home Mortgage Loans in Camden, NJ MD</b> |                  |                      |                  |                      |                  |                      |                  |                      |
|--|------------------|----------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
| 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  | 19.99            | 5.19                 | 18.42            | 15.58                | 24.00            | 15.58                | 37.59            | 63.64                |
| Home Improvement   | 19.99            | 12.31                | 18.42            | 17.69                | 24.00            | 38.46                | 37.59            | 31.54                |
| Home Refinance   | 19.99            | 3.08                 | 18.42            | 18.46                | 24.00            | 33.85                | 37.59            | 44.62                |

*Source: Data reported under HMDA for years 2004 through 2006*

The percentage of home purchases and refinance loans originated to low-income families is significantly lower than the percent of low-income families in the MD. The percentage of home improvement loans to low-income families is lower than the percentage of low-income families.

Several factors contribute to the low level of penetration to low-income families in this MD. The first is the median value of housing at \$120,061. Based upon the 2006 updated median family income of \$77,300 and 8.20% of the households in the MD living below the poverty level, a low-income family would have difficulty qualifying for a mortgage on that purchase price. Also, 28.86% of the housing units in the MD are rental units, which further restrict the ability for home ownership.

The percentage of home improvement and home refinance originated to moderate-income families meets the percentage of moderate-income families in the MD. The percentage of home purchase loans to moderate-income families is near the percentage of moderate-income families in the MD.

**Table 4** below details the loans to small business composition from Part II of Schedule RC-C from the June 30, 2007 Consolidated Report of Condition and Income.

| <b>Table 4 - Borrower Distribution of Loans to Businesses by Loan Size in Camden, NJ MD</b> |                 |                   |                        |                          |
|---|-----------------|-------------------|------------------------|--------------------------|
| Loan Size (000's)   | Number of Loans | Percent of Number | Dollar Volume of Loans | Percent of Dollar Volume |
| \$0 - \$100,000   | 217             | 57.26%            | 6,815                  | 15.19%                   |
| \$100,001 - \$250,000   | 91              | 24.01%            | 12,060                 | 26.87%                   |
| \$250,001 - \$1,000,000   | 71              | 18.73%            | 26,004                 | 57.94%                   |

*Source: 6/30/2007 Consolidated Report of Condition and Income*

Our sample of business loans originated for the period from January 1, 2004 through June 30, 2007 revealed that 61.90% of all business loans were made to businesses with an income of \$1 million or less, which is near the 67.54% of businesses with revenues of \$1 million or less within the AA. Also, during the evaluation period the bank originated 397 business loans for a total of \$67.1 million. For only loans to small businesses, regardless of the revenue of the business,

57.26% of the loans were made in original amounts of \$100,000 or less, 24.01% were made in original amounts of more than \$100,000 - \$250,000, and only 18.73% were made for \$250,001 or more, but less than \$1 million. This performance demonstrates the bank is serving the small business loan needs within its AA.

### Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. **Table 5** below reflects the distribution by geographic income level of home mortgage loans.

| <b>Table 5 - Geographic Distribution of Home Mortgage Loans in Camden, NJ MD</b> |                                |                      |                                |                      |                                |                      |                                |                      |
|--|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|--------------------------------|----------------------|
| 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  | 4.60                           | 20.35                | 9.94                           | 10.62                | 57.20                          | 51.33                | 28.26                          | 17.70                |
| Home Improvement   | 4.60                           | 0.00                 | 9.94                           | 10.77                | 57.20                          | 78.46                | 28.26                          | 10.77                |
| Home Refinance   | 4.60                           | 4.11                 | 9.94                           | 9.59                 | 57.20                          | 71.23                | 28.26                          | 15.07                |

*Source: Data reported under HMDA for years 2004 through 2006.*

The percentage of FCNB's home purchase loans significantly exceeds the percentage of owner-occupied housing in low-income census tracts. The percentage of home refinance loans meets the percentage of owner-occupied housing in low-income census tracts. FCNB had no home improvement loans in low-income geographies. Market data shows only limited home improvement lending by all banks in the low-income geographies as 154 loans were originated for owner-occupied units in 2004 through 2006. In comparison, there were 365 home purchase and 380 home refinance loans originated by all banks in the same time period for owner-occupied units in the low-income geographies. In addition, finding qualified borrowers for owner-occupied home equity loans in the low-income geographies was difficult. It took a total of 674 applications for owner-occupied home equity loans to originate the 154 loans in the low-income geographies or 23% approval rate. Another consideration is the dominance of the top five lenders who generated 60% of the number and 69% of the dollar of owner-occupied home improvement loans in the low-income geographies.

The percentage of home purchase, home improvement, and home refinance mortgage loans originated in moderate-income geographies meets the percentage of owner-occupied units in the moderate-income geographies.

Based upon US 2000 Census demographic data, the percentage of businesses, within the bank's AA, located in low-income census tracts is 5.13%, and the percentage of businesses in the moderate-income census tracts is 10.30%. Our sample of 21 loans to small business revealed no loans located in low-income geographies. However, a review of all loans to small businesses outstanding as of June 30, 2007 revealed 4 loans to low-income geographies or 1.10% of the 363 loans to small businesses outstanding as of June 30, 2007. That percentage is significantly

below the percentage of business located in low-income geographies. Robust competition from large credit card companies and large interstate banks, severely curtail the bank's ability to lend in that area. The top ten banks, out of seventy-nine banks lending in Camden County, hold an 84% market share of the number of loans to small businesses and 58% of the dollar amount.

The sample showed that 19.05% of the 21 business loans were made in moderate-income geographies. That exceeds the percentage of businesses located in moderate-income geographies.

### **Responses to Complaints**

FCNB has not received any complaints regarding its performance in helping to meet the credit needs of its assessment area 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.