



## **PUBLIC DISCLOSURE**

April 2, 2018

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

The First National Bank of Newtown  
Charter Number #324

40 South State Street  
Newtown, PA 18940

Office of the Comptroller of the Currency

1150 Northbrook Drive Suite 303  
Trevose, PA 19053

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, 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

**The Lending Test is rated: Satisfactory.**

**The Community Development Test is rated: Satisfactory.**

The major factors supporting this rating include:

- The bank's quarterly average net loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance;
- A majority of the bank's loans were originated in the bank's assessment area;
- The bank's distribution of loans represents a reasonable penetration among individuals of different income levels and business sizes;
- The bank's distribution of loans represents a reasonable dispersion throughout census tracts of different income levels; and
- FNB's responsiveness to community development needs and opportunities in its assessment area is adequate in light of its capacity and area opportunities.

## 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 generally have a population between 1,200 and 8,000 people, with an optimal size of 4,000 people. 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 Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

**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 conduct 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 applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn, 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 five years and used to determine the income level category of geographies. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) 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 Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties 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) 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 at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

The First National Bank of Newtown (FNB) is an independent, intrastate community bank, established in 1864, with its main office and headquarters in Newtown, Pennsylvania. Newtown is located within Bucks County, 30 miles north of Philadelphia. As of December 31, 2017, FNB had total assets of \$925 million and tier one capital of \$84.7 million. FNB is owned by FNB Bancorp, Inc., which is also located in Newtown, Pennsylvania. As of December 31, 2017, FNB Bancorp had total consolidated assets of \$922 million. FNB Bancorp, Inc. also owns FNB Realty. This entity owns the real estate for two bank branches. Because it does not impact the FNB's efforts or capacity to meet community needs, this entity is not considered in this evaluation.

As of December 31, 2017, FNB operates 17 branches located throughout Bucks County, PA. FNB has 12 full-service branches each equipped with a drive-up and ATM facility, four-limited service branches in retirement villages, and one branch located inside a local school. FNB also has an operations center in Newtown, PA. FNB has not opened or closed any branches since the prior CRA examination.

FNB is a full service community bank offering a standard range of retail banking, commercial banking, and trust services. Retail services include checking accounts, savings programs, money-market accounts, certificates of deposit, consumer loan programs, and residential mortgages. Commercial services include business checking accounts, money-market accounts, commercial mortgages, lines or letters of credit, credit cards, and loans for equipment or capital improvements. FNB also offers trust services.

As of December 31, 2017, FNB reported net loans and leases of \$360 million or 39 percent of total assets. The loan portfolio is comprised as follows:

<b>Loan Portfolio Summary by Loan Product December 31, 2017</b>	
<b>Loan Category</b>	<b>% of Outstanding Loans</b>
Residential Real Estate	38.24
Non-Farm/Non-Residential Real Estate	40.91
Commercial & Industrial	1.35
Consumer Loans	2.75
Construction Loans	5.28
Municipal Loans	10.14
Agriculture & Farmland Loans	0.02
Multifamily Loans	1.14

*Source: December 31, 2017 Call Report*

There are no financial or legal impediments that affect FNB's ability to meet the credit needs of its communities.

FNB's last Public Evaluation (PE), dated March 3, 2015, was rated Satisfactory.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

First National Bank & Trust Co. of Newtown (FNB) was evaluated under the Intermediate Small Bank evaluation procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The Lending Test covers two evaluation periods. For the period from January 1, 2015 through December 31, 2016, the data from the 2010 U.S. Census was used in our analysis. For the period from January 1, 2017 through December 31, 2017, data from the 2010 U.S. Census was also used in our analysis but was modified to include 2017 Office of Management and Budget census updates. The evaluation period for the Community Development Test covers the period from March 12, 2015 through April 2, 2018.

### Data Integrity

FNB's primary loan products are home mortgages and small loans to business. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, reported HMDA data was tested and found to be reliable and this data was used to evaluate the bank's home mortgage performance. The bank is also a small business loan reporter. The small business loan data was tested and found to be reliable. This data was used to evaluate the bank's small business lending performance.

### Selection of Areas for Full-Scope Review

FNB has one assessment area located in southeastern Pennsylvania. The AA is part of the Montgomery County – Bucks County – Chester County MD/MSA #33874. The AA is comprised of 119 contiguous census tracts located in central and lower Bucks County. We performed a full-scope review of the AA. Refer to the table in Appendix A for more information.

### Ratings

The bank's overall rating is based on the review of the AA. The AA contains a small percentage of low-income geographies and individuals and a moderate percentage of moderate-income geographies and individuals. Given the demographic makeup of the AA, more weight is placed on performance in moderate-income geographies. Refer to Appendix A-1 for demographic information on the AA.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Consumer Financial Protection Bureau, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by, or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## Conclusions with Respect to Performance Tests

FNB's performance under the Lending Test is Satisfactory. FNB's quarterly average net loan-to-deposit ratio is reasonable. A majority of FNB's home mortgage loans were made within the bank's assessment area. FNB has a reasonable penetration among borrowers of different income levels. FNB has reasonable dispersion of loans throughout census tracts of different income levels. FNB's community development activities demonstrate adequate responsiveness to the Community Development needs of its AA.

### LENDING TEST

FNB's performance under the Lending Test is Satisfactory. FNB's quarterly average net loan-to-deposit ratio is reasonable. A majority of FNB's home mortgage loans were made within the bank's assessment area. FNB has a reasonable penetration among borrowers of different income levels. The distribution of loans to small businesses reflects reasonable penetration of different business revenue levels. FNB has reasonable dispersion throughout census tracts of different income levels. The bank's geographic distribution of business loans reflects reasonable dispersion throughout census tracts of different income levels.

#### Loan-to-Deposit Ratio

FNB's quarterly average net loan-to-deposit ratio is reasonable given the bank's size, financial condition, and the competition within the AA. The bank's quarterly average net loan-to-deposit ratio over the 13 quarters captured in our evaluation period is 43.4 percent. During this period, the ratio ranged from a quarterly low of 41.0 percent to a quarterly high of 45.6 percent. At the last CRA evaluation, the average loan-to-deposit ratio was 47.7 percent. FNB's quarterly average net loan-to-deposit ratio did not perform as well as other financial institutions of similar size located in Bucks County. The quarterly average net loan-to-deposit ratio for Bucks County financial institutions of with asset sizes ranging from \$600 million to \$1,150 million was 83.7 percent over the same 13 quarters. The ratios ranged from a quarterly low of 67.9 percent to a quarterly high of 115.6 percent during that period. There are a large number of lenders in the AA, resulting in strong competition for loans. This led to FNB's compressed Loan to Deposit Ratio.

#### Lending in Assessment Area

A majority of home mortgage loans and small business loans were made within the bank's AA, and this meets the standard for satisfactory performance. During the evaluation period, 89.67 percent of the number and 88.73 percent of the dollar amount of home mortgage loans and loans to small businesses were made within the bank's AA. This includes HMDA reported loans from January 1, 2015 to December 31, 2017. The following table details the bank's lending within the AA by number and dollar amount of loans.

Table 1 - Lending in Assessment Area 2015 to 2017										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Purchase	53	86.89	8	13.11	61	14,730	87.00	2,202	13.00	16,932
Home Improvement	142	92.81	11	7.19	153	12,743	95.32	626	4.68	13,369
Refinance	122	87.77	17	12.23	139	20,878	77.29	6,134	22.71	27,012
Small Business	438	89.57	51	10.43	489	77,305	91.70	6,994	8.30	84,299
Totals	755	89.67	87	10.33	842	125,656	88.73	15,956	11.27	141,612

Source: FNB's HMDA data January 1, 2015 to December 31, 2017

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

The distribution of loans reflects reasonable penetration among individuals of different income levels. FNB's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

According to demographic information for this AA, the average median housing value in 2016 was \$340,888 and \$328,080 in 2017. Based on the 2016 FFIEC adjusted median family income, a low-income family earned less than \$49,750. Based on the 2017 FFIEC adjusted median family income, a low-income family earned less than \$51,300. Five percent of households in the AA were below the poverty level in 2016 and 6 percent in 2017. Given high median home prices, a low-income family has limited opportunity for homeownership. This also limits the bank's opportunity for home purchase, home improvement, and home refinance lending to low-income families. Therefore, we placed more emphasis on the bank's moderate-income performance. The bank does not have branches located in low- or moderate-income census tracts, which limits opportunities to lend to low- and moderate-income areas.

#### Home Purchase 2015 – 2016

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. Considering the difficulty for low-income families to afford housing, this performance is adequate. The percentage of home purchase loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA. This performance is excellent. FNB's market share of home purchase loans to both low- and moderate-income borrowers exceeds the bank's overall market share of home purchase loans in the AA.

### Home Improvement 2015 – 2016

The percentage of home improvement loans made to low-income borrowers is near the percentage of low-income families in the AA. This performance is adequate. The percentage of home improvement loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This performance is excellent. FNB's market share of home improvement loans to low-income borrowers is near the bank's overall market share of home improvement loans in the AA. FNB's market share of home improvement loans in the AA exceeds the bank's overall market share of home improvement loans in the AA.

### Home Refinance 2015 – 2016

The percentage of home refinance loans made to low-income borrowers is near the percentage of low-income families in the AA. This performance is adequate. The percentage of home refinance loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA. This performance is excellent. FNB's market share of refinance loans to both low- and moderate-income borrowers exceeds the bank's overall market share of refinance loans in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels beginning January 2015 and ending December 31, 2016.

Table 2 - Borrower Distribution of Residential Real Estate Loans 2015 – 2016								
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	19.23	4.55	19.68	27.27	23.15	13.64	37.94	54.55
Home Improvement	19.23	16.13	19.68	24.73	23.15	17.20	37.94	41.94
Refinance	19.23	13.04	19.68	31.88	23.15	27.54	37.94	27.54

\* Based on 2016 Peer Mortgage Data -- US and PR

\*\* 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 Families is based on the 2010 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 37.1 percent of loans originated and purchased by bank.

Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

### Home Purchase 2017

The percentage of home purchase loans made to low-income borrowers is significantly lower than the percentage of low-income families in the AA. This performance is adequate considering the lack of affordability for low-income families. The percentage of home purchase loans made to moderate-income borrowers is near the percentage of moderate-income families in the AA. This performance is adequate. FNB's market share of home purchase loans to both low- and moderate-income borrowers exceeds the bank's overall market share of home purchase loans in the AA.

### Home Improvement 2017

The percentage of home improvement loans made to low-income borrowers is significantly lower than the percentage of low-income families. However, this performance is adequate considering the lack of affordability for low-income families. The percentage of home improvement loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the AA. This performance is excellent. FNB's market share of home improvement loans to low-income borrowers is near the bank's overall market share of home improvement loans in the AA. FNB's market share of home improvement loans to moderate-income borrowers exceeds the bank's overall market share of home improvement loans in the AA.

### Home Refinance 2017

The percentage of home refinance loans made to low-income borrowers is near the percentage of low-income families in the AA. This performance is adequate. The percentage of home refinance loans made to moderate-income borrowers exceeds the percentage of moderate-income families in the AA. This performance is excellent. The percentage of refinance loans made to low- and moderate-income borrowers significantly exceeds the percentage of FNB's market share of refinance loans in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period beginning January 2017 and ending December 31, 2017.

Borrower Income Level	Low		Moderate		Middle		Upper	
	% 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	20.48	9.09	19.19	18.18	21.71	0	38.62	72.73
Home Improvement	20.48	4.55	19.19	25.00	21.71	22.73	38.62	47.73
Refinance	20.48	19.44	19.19	22.22	21.71	8.33	38.6	50.00

\* Based on 2016 Peer Mortgage Data -- US and PR

\*\* 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 Families is based on the 2015 ACS Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for 38.9 percent of loans originated and purchased by bank.

Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

### Loans to Small Businesses

The distribution of loans to small businesses reflects reasonable penetration among businesses of different revenue levels. FNB's record of lending to businesses of different revenues meets the standard for satisfactory performance.

For the 2015–2016 evaluation period, the distribution of loans to small businesses reflects reasonable penetration among businesses of different sizes. Nearly half of the bank's loans to businesses in the AA were to businesses with revenues of \$1 million or less. The following table shows the distribution of commercial loans among different sized businesses for 2015 – 2016.

<b>Table 3 - Borrower Distribution of Loans to Businesses in AA (2015–2016)</b>					
	Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	% of Businesses	% of Bank loans	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000
Business Lending Results	86.51	49.52	53.81	26.19	20.00

\* Based on 2016 Peer Small Business Data -- US and PR

\*\* 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 - 2016).

\*\*\*\* Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 0.95 percent of small loans to businesses originated and purchased by the bank.

For the 2017 evaluation period, the distribution of loans to small businesses reflects reasonable penetration among businesses of different sizes. More than half of the bank's loans to businesses in the AA were to businesses with revenues of \$1 million or less. The following table shows the distribution of commercial loans among different sized businesses for 2017 evaluation period.

<b>Table 3A - Borrower Distribution of Loans to Businesses in AA (2017)</b>					
	Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size		
	% of Businesses	% of Bank loans	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000
Business Lending Results	86.51	54.88	43.90	29.27	26.83

\* Based on 2016 Peer Small Business Data -- US and PR

\*\* 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 - 2016).

\*\*\*\* 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 2.44 percent of small loans to businesses originated and purchased by the bank.

## **Geographic Distribution of Loans**

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

### *Home Purchase 2015 – 2016*

The percentage of home purchase loans made in low-income and moderate-income geographies was adequate. The bank did not originate any home purchase loans in low-income areas. Opportunities to lend in low-income areas is very limited as there were only 270 owner occupied housing units in the AA. The percentage of home purchase loans made in moderate-income geographies was lower than the percentage of owner-occupied housing units in these geographies. However, the percentage of purchase loans made in low- and moderate-income geographies significantly exceeds the percentage of FNB's market share of purchase loans in the AA.

### *Home Improvement 2015 – 2016*

The percentage of home improvement loans in low-income geographies significantly exceeds the percentage of owner occupied housing units in those geographies. This performance is excellent. FNB's percentage of home improvement loans in moderate-income geographies was less than the percentage of owner occupied housing units. This performance is adequate. The percentage of home improvement loans in low-income geographies is significantly below the bank's market share in low-income geographies. The percentage of home improvement loans in moderate-income geographies significantly exceeds FNB's market share of lending in moderate-income geographies.

### *Home Refinance 2015 – 2016*

The percentage of refinance loans made in low-income and moderate- income geographies was adequate. While the bank did not originate any refinance loans low-income areas, there were only 270 owner occupied housing units in the AA, making opportunities for lending in low-income census tracts scarce. The percentage of home refinance loans made in moderate-income geographies was lower than the percentage of owner-occupied housing units in these geographies. However, the percentage refinance loans made to low-income geographies is in line with FNB's market share, and the percentage of refinances in moderate-income geographies significantly exceeds the percentage of FNB's market share of refinance loans in the AA.

The following table 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, 2015 through December 31, 2016.

Table 4 - Geographic Distribution of Residential Real Estate Loans 2015-2016								
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	0.18	0	23.52	14.29	46.99	34.29	29.31	51.43
Home Improvement	0.18	1.02	23.52	21.43	46.99	50.00	29.31	27.55
Refinance	0.18	0	23.52	14.46	46.99	53.01	29.31	32.53

\* Based on 2016 Peer Mortgage Data -- US and PR

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

\*\*\* Percentage of Owner Occupied Units is the number of owner occupied units in a particular geography divided by the number of owner occupied housing units in the area based on 2015 ACS Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

### Home Purchase 2017

For the period covering 2017, the percentage of purchase loans made in low-income and moderate-income geographies was adequate considering the performance context. While the bank did not originate any purchase loans low-income areas, there were only 2,559 owner occupied housing units in the AA, making opportunities for lending in low-income census tracts scarce. As previously discussed, there is strong competition from the other 460 lenders in FNB's AA, making opportunities to lend in these geographies somewhat limited. The percentage of purchase loans made in moderate-income geographies was lower than the percentage of owner-occupied housing units in these geographies. However, the percentage of purchase loans made to moderate-income geographies significantly exceeds the percentage of FNB's market share of purchase loans in the AA.

### Home Improvement 2017

Home improvement loans in low-income geographies significantly exceeded the percentage of owner occupied housing units in low-income geographies. Lending in low-income geographies was less than FNB's market share in the AA. This performance is adequate. FNB's home improvement loans in moderate-income geographies was less than the percentage of owner occupied housing units. However, lending in moderate-income geographies exceeded FNB's market share of lending in moderate-income geographies. This performance is adequate.

### Home Refinance 2017

For the period covering 2017, the percentage of refinance loans made in low- and moderate-income geographies was adequate. While the bank did not originate any refinance loans in low-income geographies, there were only 2,559 owner occupied housing units in this geography making opportunities for lending in low-income census tracts scarce. There is strong competition from 460 other lenders in FNB's AA. Low level of opportunity to make loans combined with strong competition has impacted FNB's performance. The percentage of home refinance loans made in moderate-income geographies was lower than the percentage of owner-occupied housing units in these geographies. The percentage refinance loans made to low-income geographies is in line with FNB's market share, and the percentage of refinances in moderate-income geographies significantly exceeds the percentage of FNB's market share of purchase loans in the AA.

The following tables detail 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, 2017 through December 31, 2017.

Table 4A - Geographic Distribution of Residential Real Estate Loans 2017								
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	1.74	0	20.10	11.11	43.97	44.44	34.20	44.44
Home Improvement	1.74	2.27	20.10	9.09	43.97	56.82	34.20	31.82
Refinance	1.74	0	20.10	15.38	43.97	33.33	34.20	51.28

\* Based on 2016 Peer Mortgage Data -- US and PR

\*\* 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 units in a particular geography divided by the number of owner occupied housing units in the area based on 2015 ACS Census information.

\*\*\*\* Data shown includes only One to Four-family and manufactured housing. (Property type of 1 or 2)

### Business Loans 2015-2016

The bank's geographic distribution of business loans reflects reasonable dispersion throughout the low- and moderate-income census tracts. The bank did not make any business loans in low-income geographies. The percent of small-business loans in moderate-income geographies is below the percent of small business loans in the AA. FNB's loans in moderate-income census tracts exceeds its market share of loans to small businesses. This performance is reasonable given the small number of businesses in low-income geographies that limits FNB's opportunities. There is strong competition from 460 lenders in FNB's AA, which limits opportunities to lend to businesses in these geographies. Although the bank has branches in close proximity to low- and moderate-income geographies, there are no branches located in the low- and moderate-income geographies.

The following table shows the geographic distribution of business loans and the dispersion among census tracts for January 1, 2015 through December 31, 2016.

Table 5 - Geographic Distribution of Loans to Business in 2015- 2016								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans
Business	0.36	0	21.80	9.52	48.73	59.52	28.95	30.95

\* Based on 2016 Peer Small Business Data -- US and PR

\*\* 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 (2016).

### Business Loans 2017

The bank's geographic distribution of business loans reflects reasonable dispersion throughout the low- and moderate-income census tracts. The bank did not make any business loans in low-income geographies. The percentage of small-business loans in moderate-income geographies is below the percentage of small businesses in the AA. However, FNB's percentage of loans in moderate-income census tracts exceeds its market share of loans to small businesses. This performance is reasonable given the small number of businesses in low-income geographies in the AA. There is strong competition from 460 lenders in FNB's AA, so opportunities to lend to businesses in these geographies are limited. While there are branches in close proximity to low- and moderate-income geographies, the bank does not have branches in low- and moderate-income geographies.

The following table shows the geographic distribution of business loans and the dispersion among census tracts for January 1, 2017 through December 31, 2017. The bank's performance in 2017 is comparable to that of 2015–2016 performance data.

Table 5A - Geographic Distribution of Loans to Business in 2017								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans	% of AA Business	% of Number of Loans
Business	2.54	0	20.17	7.32	44.00	46.34	33.12	46.34

\* Based on 2016 Peer Small Business Data -- US and PR

\*\* 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 (2016).

## **Responses to Complaints**

FNB did not receive any CRA-related complaints during the evaluation period.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development test is rated Satisfactory. FNB's community development activities demonstrate adequate responsiveness to the community development needs of its AA, when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

### **Number and Amount of Community Development Loans**

The bank provides CD loans through Community Lenders CDC. This is a local consortium of area banks that address the needs of low- and moderate-income persons and areas. During the evaluation period, FNB provided \$83,430 in CD loans used to fund affordable housing projects. The bank's total commitment during the evaluation period was \$500,000.

### **Number and Amount of Qualified Investments**

FNB did not make any qualified investments during the evaluation period.

FNB made donations totaling \$54,375 to several non-profit organizations that provide affordable housing and community services to low- and moderate-income individuals and families.

### **Extent to Which the Bank Provides Community Development Services**

During the evaluation period, six bank employees provided financial and technical expertise and leadership services to qualifying CD organizations, listed below, serving the AA. The following are the CD services provided by FNB employees.

A bank officer provided financial and technical expertise to a program that provides free high quality tax assistance to low-income residents of Bucks County.

A bank officer provided financial and technical expertise by serving as the Secretary of the Board of Directors of an organization that provides credit counseling and other financial services education.

A bank officer provided financial and technical expertise by serving on the Board of a CDC. The organization provides financing for community development and revitalization projects in Bucks, Chester, Delaware, Lehigh, Montgomery, Northampton, and Philadelphia counties.

An employee provided financial and technical expertise by serving on the Board of an organization that assists low-income homeless families with resolving debt and creating budgeting and saving strategies that lead to the attainment of sustainable housing and vocation.

### **Responsiveness to Community Development Needs**

FNB's community development activities, as a whole, demonstrate adequate responsiveness to the community development needs of its AA, when considering the bank's capacity, its performance context, and the availability of community development opportunities in the bank's AA.

## 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 nonmetropolitan areas that received comprehensive examination review (designated by the term “full-scope”) and those that received a less comprehensive review (designated by the term “limited-scope”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD loans): (01/01/15 to 12/31/17) Investment and Service Tests and CD Loans: (03/12/15 to 04/02/18)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
The First National Bank of Newtown Newtown, PA	Mortgage loans, small loans to business, CD loans, investments, and services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
No Affiliates	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>
FNB Newtown AA	Full Scope review	For the period from January 1, 2015 through December 31, 2016, the data from the 2010 U.S. Census was used in our analysis. For the period from January 1, 2017 through December 31, 2017, data from the 2010 U.S. Census was also used in our analysis but was modified to include 2017 Office of Management and Budget census updates.

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

FNB has one assessment area located in southeastern Pennsylvania. The AA is part of the Montgomery County – Bucks County – Chester County MD/MSA #33874. The AA is comprised of 119 contiguous census tracts located in central and lower Bucks County. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income (LMI) areas.

The following chart provides a summary of demographic information for the AA from 2015 to 2016.

Demographic Information for Full Scope Area: FNB Newtown AA (2015 – 2016)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	119	0.84	27.73	44.54	26.05	0.84
Population by Geography	522,469	0.79	26.25	45.72	27.25	0.00
Owner-Occupied Housing by Geography	149,851	0.18	23.52	46.99	29.31	0.00
Business by Geography	47,449	0.36	21.80	48.73	28.95	0.17
Farms by Geography	1,108	0.45	19.58	47.83	32.04	0.09
Family Distribution by Income Level	138,139	19.23	19.68	23.15	37.94	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	53,750	1.52	40.26	44.01	14.21	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2016 Households Below Poverty Level	93,721 99,500 5%		Median Housing Value Unemployment Rate (US Department of Labor)	340,888 4.0%		

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

Source: 2010 US Census and 2016 FFIEC updated MFI

\*\*\*US Department of Labor 2016

Of the 119 census tracts, 0.84 percent are low-income geographies, 27.73 percent are moderate-income geographies, 44.54 percent are middle-income geographies, 26.05 percent are upper-income geographies, and 0.84 percent has not been an assigned an income classification.

The 2010 US Census reported the total population of the AA at 522,469. Within the AA, there are 138,139 families and 191,411 households. The median housing cost is \$340,888. There are 203,735 housing units, of which, 73.55 percent are owner-occupied, 20.40 percent are rental-occupied, and 6.05 percent are vacant housing units. Approximately 0.18 percent of owner-occupied housing is located in the low-income geography, 23.52 percent is located in moderate-income geographies, 46.99 percent is located in middle-income geographies, and 29.31 percent is located in upper-income geographies.

The 2015–2016 median family income was \$93,721, and the FFIEC updated median family income is \$99,500. Approximately 19.23 percent of the families are low-income, 19.68 percent are moderate-income, 23.15 percent are middle-income, and 37.94 percent are upper-income. Approximately 5 percent are below the poverty level.

The economy for the AA is stable. The major employment sectors in Bucks County are health care and social assistance, retail trade, manufacturing, accommodation and food services, educational services, and construction. The major employers are Giant Food Stores LLC, Central Bucks School District, Saint Mary Medical Center, Doylestown Hospital, Bucks County, and Walmart Associates Inc.

According to the December 2016 US Department of Labor and Industry data, the unemployment rate for the Bucks County is 4.0 percent. The Pennsylvania state unemployment rate is 5.3 percent, and the U.S. Department of Labor and Industry national unemployment rate is 4.7 percent.

Competition in the AA is high and includes local community banks and branches of larger regional and national banks. According to the FDIC Deposit Market Share Report as of June 30, 2016, FNB ranks seventh in deposit market share in Bucks County at 4.57 percent. FNB's main competitors are Wells Fargo Bank (20.66 percent with 31 branches), TD Bank (13.17 percent with 17 branches), Citizens Bank of Pennsylvania (8.33 percent with 21 branches), Penn Community Bank (7.55 percent with 23 branches), and PNC Bank (6.90 percent with 14 branches).

There are 460 lenders in the bank's AA. FNB ranks 45<sup>th</sup> in mortgage market share with 0.59 percent share. The top lenders in the area in terms of market share are Wells Fargo (13.11 percent), Quicken Loans (3.48 percent), Police and Fire Federal Credit Union (3.00 percent), JP Morgan Chase (2.88 percent), and Freedom Mortgage Corporation (2.50 percent).

For the period from January 1, 2017 through December 31, 2017, data from the 2010 U.S. Census was used in our analysis but was modified to include 2017 Office of Management and Budget census updates. These changes required a separate analysis of data of updated 2017 information in certain lending tests. The following chart provides a summary of demographic information for the 2017 AA:

Demographic Information for Full Scope Area: FNB Newtown AA (2017)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA*% of #
Geographies (Census Tracts/BNAs)	119	3.36	24.37	41.18	30.25	0.84
Population by Geography	523,546	2.98	24.77	41.22	31.02	0.00
Owner-Occupied Housing by Geography	147,054	1.74	20.10	43.97	34.20	0.00
Business by Geography	47,449	2.54	20.17	44.00	33.12	0.17
Farms by Geography	1,108	1.53	18.59	42.06	37.73	0.09
Family Distribution by Income Level	138,225	20.48	19.19	21.71	38.62	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	54,833	4.96	35.46	41.31	18.27	0.00
Median Family Income FFIEC Adjusted Median Family Income for 2017 Households Below Poverty Level		99,939 102,600 6%	Median Housing Value Unemployment Rate***		328,080 3.7%	

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

Source: 2015 ACS US Census and 2017 FFIEC updated MFI

\*\*\*US Department of Labor and Industry as of December 2017

Of the 119 census tracts, 3.36 percent are low-income geographies, 24.37 percent are moderate-income geographies, 41.18 percent are middle-income geographies, 30.25 percent are upper-income geographies, and 0.84 percent has not been an assigned an income classification.

The 2015 ACS U.S. Census (effective January 1, 2017) reported the total population of the AA at 523,546. Within the AA, there are 138,225 families and 193,216 households. The median housing cost is \$328,080. There are 204,527 housing units, of which, 71.90 percent are owner-occupied, 22.57 percent are rental-occupied, and 5.53 percent are vacant housing units. Approximately 1.74 percent of owner-occupied housing is located in the low-income geography, 20.10 percent is located in moderate-income geographies, 43.97 percent is located in middle-income geographies, and 34.20 percent is located in upper-income geographies.

The 2017 median family income was \$99,939, and the FFIEC updated median family income for 2017 is \$102,600. Approximately 20.48 percent of the families are low-income, 19.19 percent are moderate-income, 21.71 percent are middle-income, and 38.62 percent are upper-income. Approximately 6 percent are below the poverty level.

The economy for the AA is stable. The major employment sectors in Bucks County are health care and social assistance, retail trade, manufacturing, accommodation and food services, educational services, and construction. The major employers are Central Bucks School District, Giant Food Stores LLC, Saint Mary Medical Center, Doylestown Hospital, Bucks County, and Northtec LLC.

According to the December 2017, US Department of Labor and Industry data, the unemployment rate for the Bucks County is 3.7 percent. The Pennsylvania state unemployment rate is 4.8 percent, and the national unemployment rate is 4.1 percent.

Competition in the AA is strong and includes local community banks and branches of larger regional and national banks. According to the FDIC Deposit Market Share Report as of June 30, 2017, FNB ranks sixth in deposit market share in Bucks County at 4.72 percent. FNB's main competitors are Wells Fargo Bank (20.35 percent with 30 branches), TD Bank (13.44 percent with 17 branches), Citizens Bank of Pennsylvania (8.80 percent with 21 branches), Penn Community Bank (7.89 percent with 24 branches), and PNC Bank (7.36 percent with 14 branches).

There are 460 lenders in the bank's AA. Peer data is not yet available for 2017. In 2016, FNB ranked 45<sup>th</sup> in mortgage market share with 0.59 percent share. The top lenders in the area in terms of market share were Wells Fargo (13.11 percent), Quicken Loans (3.48 percent), Police and Fire Federal Credit Union (3.00 percent), JP Morgan Chase (2.88 percent), and Freedom Mortgage Corporation (2.50 percent).

During the evaluation, we contacted one community organization whose primary purpose is to reduce poverty and partner with the community to promote economic self-sufficiency. The contact indicated the most significant need for low- and moderate-income individuals in the community is affordable housing due to housing prices in the area. The contact also indicated opportunities exist for community development loans, donations, and investments to support affordable housing projects. The community contact indicated the local financial institutions are active in the community and have been helping to meet the needs of the area.