

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

January 9, 1997

The Harleysville National Bank and Trust Company
Charter Number: 9541
483 Main Street
Harleysville, PA. 19438

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Harleysville National Bank and Trust Company prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of December 1, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings:

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated:
Satisfactory record of meeting community credit needs.

Evaluation Period - This evaluation covers Harleysville's performance from December 3, 1994 to December 1, 1996.

BANK PROFILE

The Harleysville National Bank and Trust Company ("Harleysville") is a wholly owned subsidiary of Harleysville National Corporation. As of September 30, 1996, Harleysville reported total assets of \$800 million. Harleysville has been profitable during the evaluation period. Harleysville is a full service commercial bank and trust business and currently operates seventeen banking offices covering five counties in Pennsylvania.

COMMUNITY PROFILE

Harleysville's delineated community is located in three different Metropolitan Statistical Areas in southeastern Pennsylvania. As a result of branch openings the bank has redefined the community delineation. Seventeen branch offices and sixteen proprietary automated teller machines serve the five county area. Fourteen of the branches are located in Montgomery County and three are located in Bucks County. Branch openings expanded its current market and strengthen the bank's presence in southeastern Pennsylvania. The accompanying table details demographic data for those segments of the counties that comprise Harleysville's delineated community. The information serves as a backdrop for the assessment factor discussions.

Delineated Community Demographics

MSA/County

Branches
Population
Population
LMI*
Census
Tracts
%
HUD
Median
Family
Income
Census
Tracts
LMI*
Census
Tracts

6160/
Montgomery,
Bucks,
Chester
17
846,472
3%
\$41,908
237
3%

6680/Berks
0
31,870
0
\$37,755
5
0%

0240/Lehigh
0
22,959
0
\$37,523
5

0%

Total

17

901,101

3%

247

3%

*LMI: Low- and moderate- income

As a result of the October 1996 branch opening the delineated community was expanded and now includes eight moderate- income census tracts. No low- income census tracts are located within the delineation. Seven of the moderate- tracts are located in the boroughs of Norristown and Pottstown, Montgomery County. One moderate- income tract is located in Warminster Township, Bucks County. The delineation includes a small portion of eastern Berks, Chester and a southern portion of Lehigh Counties. Before the October branch opening the delineated community included three moderate- income census tracts.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services it provides.

Harleysville ascertains the credit needs of its community through regular contact with community-based organizations such as neighborhood associations, nonprofit housing development corporations and local government officials. Both senior management and branch personnel are involved in this effort. A partial listing of community groups that Harleysville contacted and discussed credit needs with includes: Community Housing Services of Lansdale, The Montgomery County Redevelopment Authority, Montgomery County Housing Authority, Genesis Housing Corporation, US Department of Housing and Urban Development and the Indian Valley Chamber of Commerce.

In addition, Harleysville does customer surveys to learn what types of products and services the public desires, and what factors influence customer preferences. Harleysville conducted the survey several times during the evaluation period.

The primary needs identified in the community are for home purchase and small business lending. In response, Harleysville hired a Small Business Administration lending specialist to assist small business organizations. Harleysville also offers two mortgage products designed to meet the needs of moderate- income areas. Both products offer attractive financing terms and flexible standards for qualifying individuals.

Harleysville offers a full range of commercial and consumer banking products. Harleysville's business focus includes individuals, small and medium size businesses, government and community organizations.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors ("the Board") is aware of Harleysville's CRA activities. Annually, the board reviews and approves the CRA Statement. The Board support's periodic CRA training for all affected personnel. The directors have varied interests that help keep them aware of community activities and needs.

The Board authorized the establishment of the Compliance Committee. The committee's responsibility includes oversight of CRA activities. Membership consists of various banking departments that have some relevance to CRA activities. One director is also a member of the Compliance Committee. The committee meets quarterly and reports results to the Board regularly.

The compliance officer is responsible for the daily administration of the CRA and reports to the Committee monthly and the Board at least annually. He conducts an annual assessment of CRA activities, which the Compliance Committee and the Board review.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

Harleysville markets its products and services to its entire community. Advertising is placed in several media to cover the delineated community, including the moderate- income areas. Harleysville routinely advertises its credit related programs. Advertising promotes both the Harleysville image and specific products.

During the evaluation period, mortgages, home improvement, consumer and commercial loans were advertised in newspaper and radio. Brochures describing credit programs are also available in all branches. Print media is also used to target the multi-cultural population in the delineated community.

Brochures are printed targeting both the Hispanic and Asian population of the community.

Harleysville promotes awareness of products and services through contact with community groups, an officer calling program and direct mail promotions. The focus is on informing all segments of the delineated community of products and services offered by Harleysville.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

Harleysville has made efforts to address community credit needs, especially, through 1-4 family mortgages and small business lending. Harleysville originates the majority of its loans in its delineated community. As of September 30, 1996, gross loans and leases outstanding totaled \$553 million, representing 69% of total assets and 83% of total deposits. The following discussion on loan originations is presented in two categories: residential mortgage and home improvement loans and small business loans.

Residential Mortgage Loans and Home Improvement Loans

The following table presents total loan originations in 1995 and to September 1996 for Harleysville's delineated community. The information is based on Home Mortgage Disclosure Act ("HMDA") data.

1995 and 1996 HMDA Data

December 1995
September 1996

\$(000)

\$(000)

Conventional

140
7,852
105
7,407

Refinance

56
4,534
89
7,981

Home
Improvement

430
8,852
270
6,411

TOTAL

626
21,238
464
21,799

During the evaluation period, 85% of the total HMDA reportable loans originated were within Harleysville's delineated community. On a county level, 94% of HMDA reportable loans were originated in Montgomery, Bucks and Chester Counties. This percentage is consistent with the location of Harleysville's branches.

Affordable Housing

Harleysville offers several affordable housing products in its delineated community. During the evaluation period, ten loans totaling \$602 thousand were originated under the programs designed to provide affordable housing. All these loans are within Harleysville's delineated community.

Small Business

As of June 30, 1996 there are 1,420 loans outstanding to small businesses totaling \$119 million or 22% of total loans and leases. More than 90% of the small business lending is within the bank's delineated community. Harleysville also offers financing through the SBA. All SBA loans were located in the delineated community.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

As mentioned in Factor I, Harleysville offers financing through the SBA. During the evaluation period, Harleysville extended fourteen SBA loans totaling \$2 million.

Student loans are available through the Pennsylvania Higher Education Assistance Agency (PHEAA) at reduced rates. Total loans outstanding as of December 1996 were \$10 million. During the evaluation period Harleysville originated 2,425 PHEAA student loans totaling \$6 million.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Harleysville's current delineation represents a reasonable depiction of its community. Harleysville's delineated community encompasses a major portion of Montgomery and Bucks Counties, with small portions of Lehigh, Berks and Chester Counties in Pennsylvania. The delineation is based on the location of bank offices and their effective lending areas. The Board of Directors approved this new delineation as part of the 1996 CRA Statement. A review of demographic and geographic information reveals that no low- and moderate-income areas have been arbitrarily excluded.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Harleysville has demonstrated its willingness to lend in moderate- income areas and to low- and moderate- income individuals. The following table presents an analysis of 1995 and 1996 loan originations.

HMDA Reported Loans Lending Pattern Within Delineated Community

Income Level
Lending By Income Level of
Census Tract
Lending By Income Level of
Borrower

Number of
Loans
Amount
\$(000)
Number of
Loans
Amount
\$(000)

Low
N/A
N/A
107
2,357

Moderate
23
541
204
5,089

Middle
641
24,105
308
12,544

Upper
426
18,391
471
23,047

Two percent of the number of originations were in moderate- income census tracts and 1% of the dollars lent were in moderate- income tracts. Twenty-nine percent of the originations and 17% of the dollars lent were to low- and moderate- income individuals. Three percent of the census tracts in the community are designated moderate- income tracts. No low- income tracts are located in the community.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

Harleysville's branch offices are accessible to all segments of the community. The bank operates seventeen branch offices and makes available sixteen automated teller machines within the community. Two branches are limited service facilities providing banking services at elder care establishments.

During the evaluation period two branches were opened. No branches were closed during the evaluation period. All offices have extended weekday hours. Many offices have Saturday hours as well. Additionally, drive-in facilities are available at all locations.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Harleysville solicits credit applications from all segments of its delineated community. We discovered no evidence of discriminatory loan terms or underwriting practices during the concurrent compliance examination. Fair lending training is mandatory for all employees.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Our Fair Lending examination did not identify any credit practices inconsistent with the substantive provisions of anti-discrimination laws and regulations. We did our fair lending examination concurrently with the Community Reinvestment Act examination. The scope of the fair lending examination focused on whether the bank similarly applied the loan terms and underwriting criteria for individual minority and non-minority applicants with similar qualifications. No evidence of prohibited discrimination or other illegal credit practices were found.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Harleysville participates in community development and redevelopment programs within the local community. During the evaluation period, Harleysville made \$1.3 million in loans to social service providers and affordable housing projects. The projects below represent the types of funding in the delineated community during the evaluation period.

Harleysville has committed to a \$700 thousand line of credit and a \$150 thousand term loan to New Life Youth and Family Services. This school provides housing for juvenile boys.

Harleysville has committed a \$400 thousand line of credit to Best Nest, Inc. This service organization provides foster family care service.

Harleysville invested \$25 thousand in the Delaware Valley Community Reinvestment Fund. The fund provides financing for affordable housing projects in Bucks County.

Harleysville made a \$60 thousand loan to a local church. The funds were used to purchase transition housing for LMI individuals.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Management's efforts to meet community credit needs are consistent with the bank's size and local economic factors. Harleysville has the ability to help meet the needs of the community. There are no financial or economic impediments that adversely affect this ability.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

None