

PUBLIC DISCLOSURE

(December 2, 1996)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**PREMIER BANK
DSBB -03421895
DOYLESTOWN, PENNSYLVANIA**

**FEDERAL RESERVE BANK OF PHILADELPHIA
PHILADELPHIA, PENNSYLVANIA**

NOTE: 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 Reserve Bank of Philadelphia concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment ACT (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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 financial institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Premier Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **December 2, 1996**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part xxx.

DISCUSSION OF INSTITUTION'S PERFORMANCE

INSTITUTION'S CRA RATING: SATISFACTORY

The rating is based primarily upon; (1) an adequate level of loans in relation to deposits, (2) the majority of the institution's loans were in its assessment areas, (3) the geographic distribution of loans reflected a reasonable dispersion throughout the assessment areas, and (4) an adequate penetration of loans to borrowers of different income levels and businesses of different sizes.

The following table indicates the performance level of **PREMIER BANK** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	PREMIER BANK PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and Business of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	No complaints were received since the previous examination.		

DESCRIPTION OF INSTITUTION

Premier Bank (PB) commenced operations in April 1992 as a full service commercial bank. The bank's main office is located in Doylestown, Pennsylvania, the county seat of Bucks County, located approximately 35 miles north of Philadelphia, Pennsylvania. Bucks County is included within the Philadelphia Metropolitan Statistical Area (MSA).

PB opened its first branch office in Easton, Northampton County, Pennsylvania in January 1995. Easton is situated approximately 25 miles northeast of the bank's Doylestown headquarters and is contained within the Allentown-Bethlehem-Easton MSA. PB also maintains a loan production office (LPO) in Yardley, Bucks County, Pennsylvania.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)

Less than five years in existence, PB reported total assets of \$142.7 million, \$74.0 million or 52%, of which, were loans. The bank's percentage of loans to assets has consistently decreased since year-end 1994, at which time loans accounted for 71.3 % of total assets. This consistent decrease is attributed primarily to PB's increased holdings of mortgage-backed securities, which have grown to represent an increased percentage of total assets during the same period. Notwithstanding this shift in asset mix, the bank's volume of loan originations have not diminished in the absolute sense. The total dollar amount of PB's loan outstandings at September 30, 1996 reflects a net increase of nearly \$20.0 million or 34.6% from that reported at September 30, 1995. Moreover, the bank's loan to deposit ratio remains above the average loan to deposit ratio of PB's peer group. (Peer data refers to all insured commercial banks having assets between \$100 million and \$300 million with two or less banking offices, and located in a metropolitan area.) The bank's loan to deposit ratio performance is discussed in further detail under Loan to Deposit Ratio.

Although the bank currently offers various consumer and business loan products, its Uniform Consolidated Statement of Condition and Income as of September 30, 1996 reflects a commercial orientation. The majority of the bank's credit originations have been extended for business purposes. In terms of dollar balances, more than 70% of total loans outstanding at September 30, 1996 were designated as either commercial mortgages or commercial & industrial loans. The balance of the loan portfolio was comprised essentially of loans secured by residential real estate; while consumer loans represented only 1% of total loans outstanding. In this regard, it should be noted that a considerable portion of the bank's residential mortgages have been extended for business purposes.

Until 1995, PB originated home mortgage credit, on an accommodation basis only. During the first quarter of 1995, the bank entered into an agreement with an external mortgage originator with an intent to more proactively originate home mortgage credit. Under the agreement, the external originator accepted and processed residential mortgage applications for the bank and then submitted them to the secondary market for underwriting and funding.

PB originated approximately 35 loans under the agreement during the first nine months of 1996 in an aggregate amount of \$4.5 million. The bank discontinued its business relationship with the external originator during the third quarter of 1996 and is currently exploring a similar arrangement with another mortgage processor. In the interim, PB continues to originate residential mortgage loans on an accommodation basis. Such loans are originated on terms and conditions that, generally, do not conform to the secondary mortgage market.

The bank operates in extremely competitive banking markets dominated by large regional banking organizations and aggressive community banks. Management chooses not to compete directly with larger institutions and targets PB's loan products and financial services at small- to medium-sized businesses and professionals located in Bucks and Northampton Counties. In this regard, management continues to promote PB's small size, community focus, and its ability to provide individualized and customized banking services to individuals and businesses within both its AA's. Notwithstanding this marketing focus, several de novo institutions have established offices in Doylestown over the past eighteen months. Additionally, it should be noted that approximately 80% of the loans originated by PB, since the previous examination, are geographically contained within the bank's Bucks County assessment area. The bank's operations for fiscal

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DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued)

1995 resulted in net income of \$778 thousand, which represented a return on average assets (ROAA) of 0.89%. Net income for the nine months ended September 30, 1996 was \$826,000, corresponding to an annualized ROAA of 0.88%.

The bank's lending activities include the following:

- C PB, together with 11 other financial institutions, participates in the Bucks County Microloan Fund. The fund, which totals \$600,000, was established to promote alternatives to conventional finance for small businesses in Bucks County. In addition to its respective loan commitment, each of the fund's participants is required to make a \$1,500 contribution to cover administration costs of the fund. PB has made a loan commitment of \$50,000 to the fund.

- C Since the previous evaluation, the bank extended a \$10,000 loan to an organization known as PROJECT, located in Easton. PROJECT provides various social services within the city of Easton.

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS

PB utilized its effective lending territory, in conjunction with existing geographic and natural boundaries, as a basis to determine two assessment areas for purposes of CRA. The one assessment area (AA) is defined as Bucks County, Pennsylvania. The other AA is comprised of the southeastern portion of Northampton County, Pennsylvania.

Bucks County Assessment Area

[Note: Some of the statistical data included in the comments below is taken from statistical data compiled by the Bucks County Planning Commission].

The Bucks County AA is located within the Philadelphia MSA. The AA includes 123 census tracts, five or 4%, of which, have been designated as low- to moderate-income by the U.S. Department of Housing and Urban Development (HUD).

Bucks County Census Tract Summary:

	Number	Percent
Moderate-Income Census Tracts	5	4%
Middle-Income Census Tracts	72	59%
Upper-Income Census Tracts	46	37%
Total Census Tracts in Assessment Area	123	100%

Bucks County Population Summary By Census Tract:

	Number	Percent
Low/Moderate-Income Census Tract Population	10,957	2.0%
Middle-Income Census Tract Population	320,089	59.0%
Upper-Income Census Tract Population	209,610	39.0%
Market Population	540,656	100%

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS (continued)

Bucks County Assessment Area (continued)

The AA contains 146,671 families; 38,795 or 26% are designated as low- to moderate- income; 37,578 or 26% are designated as middle-income; and 70,298 or 48% are designated as upper-income. There are 4,185 families in the AA, (2.8% of all families), that have been designated as living below the national poverty level.

Bucks County Population Summary by Family Type

	Number	Percent
Low/Moderate income Families	38,795	26%
Middle-Income Families	37,578	26%
Upper-Income Families	70,298	48%
Total Families	146,671	100%

The Philadelphia MSA also includes; Chester, Delaware, Montgomery, and Philadelphia Counties in Pennsylvania; and Burlington, Camden, Gloucester, and Salem Counties in New Jersey. Accordingly, demographic and economic data related to the MSA do not necessarily correspond to the bank's Bucks County AA.

Based on 1990 U.S. Census data, the median family income for the Bucks County AA was \$48,851, considerably higher than median incomes of \$41,908 and \$34,856 for the Philadelphia MSA and the state of Pennsylvania, respectively. Seventy-two percent of the housing units in the Bucks County AA are owner-occupied, compared to owner occupation rates of 65% and 64% for the Philadelphia MSA and Pennsylvania, respectively. The median value of housing units in the AA is \$139,900, substantially higher than the medians of \$99,212 and \$69,075 of the Philadelphia MSA and the state of Pennsylvania, respectively.

The county contains a variety of communities: rural, suburban, and urban in character. Three county regions or planning areas are locally recognized within Bucks County. They are Upper Bucks, Central Bucks, and Lower Bucks. In general, the rural areas are in Upper Bucks, while the suburban/urban areas are in Central and Lower Bucks. The county's five moderate-income geographies are concentrated in Lower Bucks.

Consistent with national trends, Bucks County's economy has underwent significant structural changes over the past 30 years. During that period, the proportion of individuals employed in manufacturing and agriculture has declined, while the proportion of workers in service industries has increased significantly. Despite this substantial industrial shift, 25% of the county's workers were employed in manufacturing, mining, or agriculture during 1990. It should also be noted that substantial real estate development within this generally affluent county has created a highly competitive banking environment with significant growth opportunities, particularly over the last several years.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS (continued)

Bucks County Assessment Area (continued)

Since 1945, Bucks County has been one of the fastest growing counties in the state of Pennsylvania. In fact, the county has experienced the largest population gain of any county in Pennsylvania in every decade since 1950. The county's 1990 population of 540,656 reflects a nearly fourfold increase from that reported at 1950. Between 1980 and 1990, the county's population grew by 62,000, while Pennsylvania, as a whole, had a net gain of only 17,000 persons.

Such rapid population growth is attributed to several factors including: proximity to major metropolitan areas (New York City and Philadelphia), accessibility to regional highway and transit systems, availability of land for development, a favorable business climate, and well regarded public schools. The increased population has significantly increased the demand for residential housing in the AA. While total population increased at a rate of 15% between 1980 and 1990, the total number of households grew by 22%, as the average family size per household decreased from 3.0 to 2.8 persons per household. Available county data indicates that overall housing stock is comparatively new and in good condition.

Between 1980 and 1990, the median value of owner-occupied homes increased from \$56,200 to \$139,900, while the median apartment rent increased from \$252 to \$524. The comparatively high cost of home ownership and rents, throughout the county, has created a substantial need for affordable housing at all income levels. Based on more recent data, compiled for the second quarter of 1995, a gap of, \$7,700 existed between the house price affordable to the county's median household income (i.e. \$132,200)¹ and the county median home price (i.e. \$139,900). The county's median price of new single family detached homes was \$160,000. Of the 1,993 home sales recorded during the second quarter of 1995, only 45% were priced at \$132,200 or less. Moreover, of the county's 33 municipalities that had 10 or more housing transactions during this period, only 13 had median housing prices that were affordable at a 1994 adjusted median household income of \$46,470. Given such statistics, many low- to moderate-income and a significant number of middle-income individuals and families find it difficult to qualify for conventional mortgage credit to purchase a home in the county.

The need for affordable housing within Bucks County has been well substantiated by established local community groups during the past several years. Indeed, some community activists have labeled the need a crisis. In this regard, the Delaware Valley Community Reinvestment Fund (DVCRF) has coordinated an arrangement among three non-profit housing groups and 14 area commercial banks to address affordable housing needs. That arrangement, known as the Bucks County Collaborative for Affordable Housing, provides for various financing sources and technical support to increase properties available for low- and moderate-income families to own or rent. Such sources and support include a designated loan pool, a pre-development fund, short-term construction and bridge loans, and grants for the support of mortgage counseling agencies in the county. DVCRF, which was established in 1986, is a well recognized non-profit community development corporation (CDC) based in Philadelphia. During its ten year existence, DVCRF has channeled capital sources and technical support to several community development initiatives throughout the Philadelphia MSA, primarily in the cities of Camden, New Jersey and Philadelphia.

¹ Maximum house price affordable is based upon conventional 30 year mortgage financing, at prevailing interest rates during the second quarter of 1995, with a 10% down payment and a maximum of 28% of gross income for housing expenditures (including principal, interest, property taxes, and insurance).

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS (continued)

Northampton County Assessment Area

The Northampton County AA is located in the Allentown-Bethlehem-Easton MSA. This AA includes 16 census tracts, 2 or 12%, of which, are designated as low- to moderate-income by HUD.

Northampton County Assessment Area Census Tract Summary:

	Number	Percent
Low/Moderate-Income Census Tracts	2	12%
Middle-Income Census Tracts	10	63%
Upper-Income Census Tracts	4	25%
Total Census Tracts in Assessment Area	16	100%

Northampton County Population Summary by Census Tract:

	Number	Percent
Low/Moderate-Income Census Tract Population	6,562	11%
Middle-Income Census Tract Population	36,820	59%
Upper-Income Census Tract Population	18,658	30%
Market Population	62,040	100%

The AA contains 16,435 families; 5,867 or 35.7 % are designated as low- to moderate- income, 4,406 or 26.8% designated as middle-income, and 6,162 or 37.5% are designated as upper-income. There are 823 families, (5.0% of all families) in the AA that have been designated as living below the national poverty level.

Northampton County Population Summary by Family Type

	Number	Percent
Low/Moderate income Families	5,867	36%
Middle-Income Families	4,406	27%
Upper-Income Families	6,162	37%
Total Families	16,435	100%

Geographically, the AA consists primarily of the city of Easton and its surrounding Pennsylvania suburbs. Easton's financial and economic conditions exert a significant influence upon the AA's ongoing economic viability. Based on data in A Lenders Profile of Easton, prepared by the Community Affairs Department of

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DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS (continued)

Northampton County Assessment Areas (continued)

this Reserve Bank, Easton has experienced a steady decline in commercial activity over the past 15 years. Downtown real estate values are depressed, while vacancy rates are high. Moreover, the city has experienced difficulty in attracting financial investment and revitalization initiatives to its downtown business district.

The principal sector of the local economy has traditionally been manufacturing; however, the service sector has grown significantly over the past decade. At present, major employers in the region are Binney and Smith (makers of Crayola Crayons), Victaulic PLC (a United Kingdom based manufacturer and supplier of various piping and gasket products), James River Corporation of Virginia (a large manufacturer of paper and paper products), Mack Printing, and Maiers Bakery (a large regional bakery).

Currently, the most significant economic development initiative within the city of Easton is the Two Rivers Landing Visitors Center. This project encompasses the creation of a multi-purpose visitor center, which will include the Crayola Crayon Visitors Center, a new National Heritage Corridor, and the relocation of the National Canal Museum. It is expected that the center will draw a maximum of 300,000 visitors annually, providing much needed tourism and commerce for Easton's downtown business district.

Census data for 1990 indicates that the city of Easton's population decreased by 26% between 1950 and 1990, with most of this decrease occurring between 1970 and 1980. Easton has a sizable low-income population. The median family income for the city is \$26,365, compared to \$37,424 and \$37,523 for the AA and the MSA, respectively. Fifty-two percent of the housing units in the city of Easton are owner-occupied, compared with 65% and 67% for the AA and the MSA, respectively. The owner occupancy rate for residential housing has steadily declined over several years as many formerly owner-occupied dwellings have been converted to two- and three-unit rental properties. The median value of Easton's housing units is \$80,500, as compared to a median value of \$101,445 and \$97,045 for the AA and MSA, respectively.

PB's Easton office operates in an extremely competitive market for financial services. The Allentown/Bethlehem/Easton MSA is serviced by 33 banks and thrift institutions with a total of 228 branch offices. The aggregate deposits of these institutions is \$7.4 billion. The market includes several large commercial bank's and thrifts. Area competition has continued to intensify with the recent trend of acquisitions of smaller financial institutions by larger regional and super-regional financial institutions.

LOAN TO DEPOSIT RATIO

The chart below depicts the PB's loan-to-deposit ratio and growth rates for the past four years:

	12/31/95	12/31/94	12/31/93	12/31/92
Loan to Deposit	64.3%	88.1%	78.7%	42.9%
Total Assets(In Millions)	\$ 115.7	\$ 63.5	\$ 38.3	\$ 22.3
Asset Growth	82.3%	65.6%	72.7%	not applicable
Net Loan Growth	35.4%	67.3%	263.6%	not applicable

Source: December 31, 1995 UBPR

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF PREMIER BANK'S ASSESSMENT AREAS (continued)

LOAN TO DEPOSIT RATIO (continued)

Comparable loan-to-deposit peer averages are as follows; 63.7% (December 31, 1995), 66.1% (December 31, 1994), and 62.1% (December 31, 1993).

The bank has grown at a rapid pace since its inception. Since 1995, PB's holdings of mortgage-backed securities have increased substantially. Such increase is evidenced by a marked decrease in the loan-to-deposit ratio at year-end 1995. Additionally, as noted under Description of Institution, total loans to assets measured 52%, which is also reflective of PB's substantial volume of mortgage-backed securities.

The following table depicts the institution's quarterly loan-to-deposit ratios since the last examination. It also shows the quarterly loan-to-deposit ratio average since the last examination. The quarterly loan-to deposit ratio average is derived by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters since the last examination.

As Of	Net Loans	Deposits	Ratio
09/30/96	\$73,153,000	\$109,651,000	66.71%
06/30/96	\$66,805,000	\$100,523,000	66.46%
03/31/96	\$63,691,000	\$96,859,000	65.76%
12/31/95	\$60,322,000	\$93,803,000	64.31%
09/30/95	\$54,115,000	\$84,040,000	64.39%
06/30/95	\$49,221,000	\$76,102,000	64.68%
03/31/95	\$45,501,000	\$63,048,000	72.17%
Quarterly Loan to Deposit Ratio Average Since Previous Examination			66.35%

Notwithstanding its substantial portfolio of mortgage-backed securities, the bank's volume of loans relative to deposits is deemed to meet the standards of satisfactory performance for purposes of CRA. The loan-to-deposit ratios are comparable to peer averages and considered reasonable given the bank's competitive lending environment.

LENDING IN ASSESSMENT AREA

PB internally monitors and analyzes the geographic distribution of its loan originations in an effort to document its lending profile. Accordingly, PB's internal analyses were used to determine its lending presence within both of its AA's. Additionally, a statistical sample of consumer and commercial loans, originated during the six-month period from June 1996 through November 1996, and the bank's 1995 Home Mortgage Disclosure Act (HMDA) Statement were analyzed for this purpose.

PB performed a geographic analysis of all loans it originated in 1995. The table below summarizes the bank's lending presence within and outside its AA's, based on this analysis.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA (continued)

Loans Inside and Outside of Assessment Areas 1995 Loan Originations				
	Number	Percent	Dollar	Percent
Inside	182	69%	\$14,217	62%
Outside	81	31%	\$8,728	38%
Total Loans	263	100%	\$22,945	100%

The next table depicts PB's lending presence inside and outside its AA's, based on consumer and commercial loans sampled at this examination.

LOANS INSIDE AND OUTSIDE OF ASSESSMENT AREA Loan Sample (June 1996 -November 1996)						
	DIRECT CONSUMER LOANS		COMMERCIAL LOANS		TOTAL LOANS SAMPLED	
	Number	Percent	Number	Percent	Number	Percent
INSIDE	30	60%	33	48%	63	53%
OUTSIDE	12	24%	14	20%	26	22%
UNKNOWN	8	16%	22	32%	30	25%
TOTAL	50	100%	69	100%	119	100%

Finally, a recap of the bank's 1995 HMDA Statement reveals a lending penetration level comparable to that of the two preceding distribution analyses.

1995 HMDA Approved Loan Penetration Profile		
	Number	Percent
Inside	34	54%
Outside	29	46%
Total Loans	63	100%

Based upon the foregoing, it was determined that PB originates a majority of its loans within its two AA's. As such, the institution's overall lending profile within its AA's was determined to meet the standards for satisfactory performance given its asset size, financial condition, business objectives, and the credit needs specific to each AA.

For purposes of assessing performance under the criteria of Lending to Borrowers of Different Incomes and Business of Different Sizes (i.e Borrower Distribution), a greater weight has been placed on business size, rather than borrower income, because a substantial majority of PB's loans originated since the previous evaluation, were extended to businesses.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BUSINESSES OF DIFFERENT SIZES

A small business loan, for purposes of CRA, means a loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income. According to Schedule RC-C Part II (Loans to Small farms and Small businesses) of the bank's Consolidated Reports of Condition and Income as of June 30, 1996, 100% of the bank's commercial loans were classified as small business loans and are detailed below in the following chart (there were no loans with original amounts greater than \$1,000,000):

Loans to Small Businesses		
	Amount Outstanding at 6/30/96	Percent
Loans with original amounts of \$100,000 or Less	\$4,792,000	10%
Loans with original amounts of more than \$100,000 through \$250,000	\$12,676,000	26%
Loans with original amounts of more than \$250,000 through \$1,000,000	\$31,083,000	64%
TOTAL "SMALL BUSINESS LOANS"	\$48,551,000	100%
Loans with original amounts of Greater than \$1,000,000	\$0	0%
Total Commercial Loans	\$48,551,000	100%

In addition to the preceding analysis, a statistical sample of commercial loan approvals originated between June 1996 and November 1996 was reviewed to determine the distribution of loans to businesses of different sizes. A review of 69 commercial loans originated during this period revealed that 53 or 77% were made to businesses with gross revenues of \$1 million or less. Such distribution was determined to be consistent with the institution's asset size and lending capacity.

LENDING TO BORROWERS OF DIFFERENT INCOMES

Bucks County Assessment Area

For purposes of CRA, a low- or moderate-income designation refers to an income which is less than 80% of the median family income of a given area, such as a Metropolitan Statistical Area (MSA). As noted in comments under Buck's County Assessment Area, the median family income of the Philadelphia MSA was \$41,908 based on 1990 census data. Based on ongoing annual adjustments to this number by HUD, the Philadelphia MSA's adjusted 1995 median income was \$47,100. Thus, borrower incomes for the bank's **Buck's County AA** were categorized as follows:

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Bucks County Assessment Area (continued)

<u>Low /Moderate Income</u>	Less than 80% of the Median MSA Income - Less than \$37,680
<u>Middle Income</u>	80% to 120% of the Median MSA Income - Between \$37,680 and \$56,520.
<u>Upper Income</u>	Greater than 120% of the Median MSA Income - Greater than \$56,520.

A statistical sample of installment loan approvals for the period June 1996 through November 1996 was reviewed to determine the distribution of borrowers of different income levels. The review revealed the following income distribution for consumer loans sampled in the bank's Bucks County assessment area:

INSTALLMENT LOAN INCOME DISTRIBUTION		
	Number	Percent
Low / Mod Income	9	45%
Middle Income	2	10%
Upper Income	9	45%
TOTAL	20	100%

Based on 1990 census data, 26% of the families contained in the Bucks County AA were categorized as low-to moderate-income, 26% were categorized as middle- income, while 48% were categorized as upper-income. The table below compares the demographics of the AA with the income distribution of the sample reviewed.

INCOME DISTRIBUTION COMPARATIVE ANALYSIS		
	Assessment Area Income Distribution	Borrower Income Distribution (Loans Sampled)
Low	26%	45%
Middle	26%	10%
Upper	48%	45%
Total	100%	100%

While low-to moderate-income families represent 26% of the families within the assessment area, 45% of the loans sampled were extended to borrowers categorized as low- to moderate-income.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Bucks County Assessment Area (continued)

(Note: the preceding distribution comparison indicates that, in relative terms, a substantial level of loans have been extended to low- to moderate-income borrowers. Nevertheless, the comparison should be viewed in the context that borrower income utilized, for purposes of the distribution, was income that PB relied upon in making its credit decision. Thus, some of the borrowers, designated as low- to moderate-income, may, in fact, be individuals that are part of a family or household not categorized as low- to moderate-income. The distribution should also be tempered by the relatively small sample size and the fact that consumer installment credit is not a major product line of the bank.)

PB's 1995 HMDA Statement reflected the following borrower income distribution for the bank's Bucks County AA:

1995 HMDA Income Distribution for Bucks County Assessment Area				
	Applications Received		Loans Originated	
	Number	Percent	Number	Percent
Low/ Moderate Income	3	8%	2	8%
Middle Income	9	25%	7	27%
Upper Income	24	67%	17	65%
Total Appl./Loans	36	100%	26	100%

HMDA data indicates that the bank's relative volume of home mortgage applications and originations associated with low- to moderate-income applicants and borrowers is considerably less than that derived from the sample of consumer loans. Notwithstanding such disparity, PB's low- to moderate-income distribution of home mortgage credit within its Bucks County AA is deemed reasonable in view of the following:

Home mortgage credit was not one of the bank's major product lines during 1995 as evidenced by the limited volume of applications. As already noted previously in the report, PB had only established a relationship with an external party to sell home mortgages in the secondary market in the first quarter of 1995. From a practical viewpoint, to effectively address the credit needs associated with the house affordability gap in Bucks County, a financial institution must engage in one or a combination of the following;

Participate in an established consortium or help create a consortium that exists to address housing affordability such as the Bucks County Collaborative for Affordable Housing; or,

Create, or establish a means to offer, loan products especially tailored to the purchase or acquisition of affordable housing (i.e. specifically restricted to low- to- moderate income applicants, or properties located in low- to moderate-income geographies, or first-time home buyers)

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Bucks County Assessment Area (continued)

PB had not engaged significantly in either of the aforementioned during 1995. This is not deemed unreasonable for purposes of CRA, in view of the bank's size, limited period of existence, and the fact that it had only begun to actively seek the origination of home mortgage credit in 1995.

The house affordability gap, discussed under the Bucks County Assessment area, has existed in Bucks County for several years. As previously noted, only 13 of the 33 municipalities having 10 or more housing transactions during the second quarter of 1995 had median housing prices that were affordable at the county's adjusted median household income. Most of those municipalities were located in either Upper Bucks or Lower Bucks. Central Bucks, which contains only one low- to moderate-income geography, generally, has significantly higher housing values than Lower Bucks or Upper Bucks. As such, the bank's somewhat limited low- to moderate-income borrower distribution should also be tempered by the Central Bucks location of its main office.

Northampton County Assessment Area

As noted under Northampton County Assessment Area, the median family income for the Northampton County MSA was \$37,523 based on 1990 census data. Based on ongoing annual adjustments to this number by HUD, the MSA's adjusted 1995 median income was \$43,000. Thus, borrower incomes for the bank's **Northampton County AA** were categorized as follows:

<u>Low /Moderate Income</u>	Less than 80% of the Median MSA Income - Less than \$34,400.
<u>Middle Income</u>	80% to 120% of the Median MSA Income - Between \$34,400 and \$51,600.
<u>Upper Income</u>	Greater than 120% of the Median MSA Income - Greater than \$51,600.

A statistical sample of installment loan approvals for the period, June 1996 through November 1996, was reviewed to determine the distribution of borrowers of different income levels. The review revealed the following income distribution for consumer loans sampled that were specific to the bank's Northampton County AA.

INSTALLMENT LOAN INCOME DISTRIBUTION		
	Number	Percent
Low / Mod Income	6	50%
Middle Income	2	17%
Upper Income	4	33%
TOTAL	12	100%

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Northampton County Assessment Area (continued)

Based on 1990 census data, 34% of families residing in the Northampton AA were categorized as low- to moderate-income, 27% were categorized as middle-income, while 39% were categorized as upper-income. The table below compares the demographics of the assessment area with the institutions's distribution of loans to borrowers of different incomes.

INCOME DISTRIBUTION COMPARATIVE ANALYSIS		
	Assessment Area Income Distribution	Borrower Income Distribution (Loans Sampled)
Low/Moderate	36%	50%
Middle	27%	17%
Upper	37%	33%
Total	100%	100%

While low-to moderate-income families represent 36% of the families within the assessment area, 50% of the loans sampled were extended to borrowers categorized as low-to moderate-income.

[Note: similar to the distribution comparison for the Bucks County AA, the foregoing distribution comparison indicates that, in relative terms, a substantial level of loans have been extended to low- to moderate-income borrowers. Again, the comparison should be viewed in the context that borrower income utilized, for purposes of the distribution, was income that PB relied upon in making its credit decision. Thus, some of the borrowers, designated as low- to moderate-income, may, in fact, be individuals that are part of a family or household not categorized as low- to moderate-income. The distribution should also be tempered by the fact that consumer installment credit is not a major product line of the bank, and the correspondingly small sample size, (even smaller than the sample for the Bucks County AA).]

PB's 1995 HMDA Statement indicated that the bank financed only 10 residential properties located in the Northampton County AA. As previously indicated, home mortgage credit was not one of the bank's major product lines during 1995; and, total home loan originations by PB were somewhat limited during 1996. Moreover, the total number of loans originated by the bank's Easton Office during 1995 and 1996 is relatively modest, in comparison to origination volume within the Bucks County AA. Consequently, it was determined that the limited volume of mortgage credit did not lend itself to any meaningful analysis.

In summary, the foregoing analyses of the Bucks and Northampton AA's indicate a reasonable distribution among borrowers of different income levels within both assessment areas, including low-to-moderate income borrowers. Such evaluation is based, in part, on the demographics of both assessment areas, and PB's market niche.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS

Bucks County Assessment Area

The table below depicts the geographic distribution of PB's total loans originated within the Bucks County AA in 1995, based on an internal analysis conducted by the bank.

Geographic Distribution of Loans Within Assessment Area 1995 Loan Originations		
	Number	Percent
Low/Mod	1	1%
Middle	74	45%
Upper	88	54%
Total	163	100%

Based on 1990 census data, 2% of the AA's population reside in moderate-income census tracts, 59% reside in middle-income tracts, and 39% reside in upper-income tracts. The table below compares AA demographics with the bank's distribution of loans according to census tract designation.

	Assessment Area Demographics	Geographic Distribution of 1995 Loan Originations
Low/Moderate	2%	1%
Middle	59%	45%
Upper	39%	54%
Total	100%	100%

Additionally, the examination included a geographic analysis of a statistical sample of installment and commercial loans originated between June 1996 and November 1996. The tables below depict the Bucks County AA geographic distribution of the sample.

GEOGRAPHIC DISTRIBUTION OF LOAN SAMPLE (Bucks County Assessment Area)						
	INSTALLMENT LOANS		COMMERCIAL LOANS		TOTAL LOANS	
	Number	Percent	Number	Percent	Number	Percent
LOW/MODERATE	0	0%	1	3%	1	2%
MIDDLE	6	30%	14	42%	20	38%
UPPER	14	70%	18	55%	32	60%
TOTAL	20	100%	33	100%	53	100%

Finally, the bank's 1995 HMDA Statement reflects the following geographic distribution of home mortgage credit within the Buck County AA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Bucks County Assessment Area (continued)

1995 HMDA Census Tract Distribution for Assessment Area				
	Applications Received		Loans Originated	
	Number	Percent	Number	Percent
Low/ Moderate Income	0	0%	0	0%
Middle Income	18	48.6%	12	44.4%
Upper Income	19	51.4%	15	55.6%
Total Appl./Loans	37	100%	27	100%

The preceding distribution analyses reflect a reasonable geographic dispersion of loans throughout the Bucks County AA for purposes of CRA. This assessment is based upon the following: the AA contains no low-income geographies and comparatively few moderate-income geographies; PB's size; the relatively high degree of competition among financial institutions within the AA; and the fact that the bank's main office in the AA is not as proximate to the AA's moderate-income geographies as are those of other institutions within the AA.

Northampton County Assessment Area

The table below depicts the geographic distribution of PB's total loans originated within the Northampton County AA in 1995, based on an internal analysis conducted by the bank.

Geographic Distribution of Loans Within Assessment Area 1995 Loan Originations		
	Number	Percent
Low/Mod	2	12%
Middle	8	47%
Upper	7	41%
Total	17	100%

Based on 1990 census data, 11% of the AA's population reside in moderate-income census tracts, 59% reside in middle-income tracts, and 30% reside in upper-income tracts. The table below compares AA demographics with the bank's distribution of loans according to census tract designation.

	Assessment Area Demographics	Geographic Distribution of 1995 Loan Originations
Low/Moderate	11%	12%
Middle	59%	47%
Upper	30%	41%
Total	100%	100%

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Northampton County Assessment Area (continued)

Additionally, the examination included a geographic analysis of a statistical sample of installment loans originated between June 1996 and November 1996. The table below depicts the Northampton County AA geographic distribution of the sample.

GEOGRAPHIC DISTRIBUTION OF LOAN SAMPLE (Northampton County Assessment Area)		
	CONSUMER LOANS	
	Number	Percent
LOW/MODERATE	3	30%
MIDDLE	6	60%
UPPER	1	10%
TOTAL	10	100%

Geographic analyses of commercial loan and home mortgage loan originations during 1996, based on statistical sampling, were not performed because it was determined that the limited origination volumes of these loan types did not lend themselves to meaningful analysis.

The preceding distribution analyses reflect a reasonable dispersion throughout the Northampton County AA, including low- to moderate-income geographies. In particular, the 1995 analysis closely approximates the AA's income demographics. The assessment is also tempered somewhat by the limited number of loan originations in the AA, compared to the bank's originations in the Bucks County AA; the correspondingly small sample of consumer installment loans; the bank's size; the relatively high degree of competition among financial institutions within the AA; and the fact that the PB's Easton office has not been in existence for as long as its main office in Doylestown.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

A review of the credit policies of the bank revealed no evidence of prohibited discriminatory practices such as prescreening or the discouragement of applicants for the types of credit which are offered by the bank. Management has established consumer and commercial loan policies that evidence its commitment to evaluate and offer credit requests without regard to any prohibited basis.

The bank is in general compliance with the substantive provisions of the antidiscrimination laws and regulations including the Equal Credit Opportunity Act, and the Fair Housing Act and other agency regulations pertaining to nondiscriminatory treatment of credit applicants. An evaluation of the bank's actual lending practices noted an overall adherence to the antidiscrimination laws and fair lending statutes.

There were no consumer complaints that have been filed with this Reserve Bank as of this examination date, nor is the bank currently engaged in any litigation related to consumer credit statutes.