PUBLIC DISCLOSURE

(August 25, 1997)

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

EAST PENN BANK
DSBB - 034222900000
EMMAUS, 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 **East Penn Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **August 25, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

DISCUSSION OF INSTITUTION'S PERFORMANCE

SCOPE OF EXAMINATION:

The scope of the examination consisted of an assessment of East Penn Bank's (EPB) lending performance since the previous examination (November 20, 1995) conducted by this Reserve Bank. The evaluation of the lending activity consisted of an analysis of the bank's 1996 and 1997 year-to-date Home Mortgage Disclosure Act Loan Application Register (LAR) and its consumer, commercial and residential loan activity during 1996 and the first seven months of 1997. The examination also includes an evaluation of the institution's compliance with anti-discrimination laws and regulations. In addition, interviews were conducted with representatives of the Community Action Committee of the Lehigh Valley, the Allentown Chamber of Commerce, the Redevelopment Authority of the City of Bethlehem and the Consumer Credit Counseling Service of the Lehigh Valley in an effort to better understand the credit needs of the bank's assessment area. The evaluation was based solely on those activities and initiatives which occurred during the period between examinations.

INSTITUTION'S RATING: SATISFACTORY

The evaluation determined that East Penn Bank (EPB) has exhibited a satisfactory level of performance in responding to the credit needs of its assessment area. The bank's lending levels and concentration of credit evidence an affirmative response to local credit demands, consistent with the institution's size, and financial capacity. The loan-to-deposit ratio is above average due to ongoing loan growth and the substantial majority of loans originated during the period between examinations were within the institution's assessment area. The evaluation also included a borrower income distribution analysis. The analysis disclosed a reasonable response to the credit needs of borrowers of different incomes, including borrowers with low- and moderate-incomes and businesses of different sizes. In particular, the percentage of consumer loans extended to low and moderate income individuals mirrored the percentage of the assessment area's low- and moderate-income population. Furthermore, nearly all of the bank's commercial loans have been extended to small businesses as defined by Regulation BB.

Notwithstanding this positive performance, the CRA assessment also disclosed that the geographic dispersion of credit evidenced nominal activity in the assessment area's designated low and moderate income census tracts. Since the previous examination, the bank's effective lending territory and its assessment area have expanded and have correspondingly assumed an increased number of low and moderate income census tracts. The void in geographic dispersion is attributable, in part, to the fact that the bank has not had sufficient time to penetrate these new markets. Furthermore, the geographic lending pattern is not indicative of an unwillingness to lend since consumer lending to low and moderate income borrowers represented 31% of total loans comparable to the population percentage of 34%, and well above the 13% population which resides in low and moderate income tracts. The evaluation concluded that the bank's additional new branches, comprehensive product line, and a funding strategy focused on increasing lending capacity should facilitate a more apparent lending level in designated low- and moderate-income areas.

DESCRIPTION OF INSTITUTION:

East Penn Bank, headquartered in Emmaus, Pennsylvania, is a full-service commercial bank which commenced operations in 1991. As of June 30, 1997, the bank had total assets of $110 million. The bank offers a wide range of commercial and consumer banking services in Emmaus and surrounding communities. In December 1996, EPB opened its first branch on Hamilton Boulevard in Trexlertown, Pennsylvania. In January 1997, the East Penn Mortgage Company (mortgage company), a wholly-owned subsidiary of East Penn Bank, commenced operations. The mortgage company=s offices are part of the Trexlertown facility. Additionally, in April 1997, East Penn Bank submitted an application to this Reserve Bank for approval to construct a full-service branch in Macungie, Pennsylvania. Approval was granted in May. Management anticipates that this location will open during the fourth quarter of 1997.

According to bank management, East Penn Bank=s primary trading area can generally be described as the AEast Penn@ area of Lehigh County, Pennsylvania. Although no specific geographic boundaries exist to describe this area, the bank describes the area as the borough of Emmaus and areas south such as Macungie to the Montgomery County border and westward to Trexlertown to the Berks County border. The institution=s secondary trading area is defined as all of Lehigh County. According to management, the goal of the bank is to become established as the primary community banking alternative in the Emmaus area. In so doing, the bank continues to emphasize the advantages of its small size, community focus, and ability to provide individualized and flexible customer service in addressing the credit and banking needs of residents and businesses.

East Penn Bank offers a variety of loan products commensurate with a full-service commercial bank. The board of directors and management review the bank=s lending services to ensure that they remain responsive to community needs and in conformance with the bank=s business objectives. The board of directors and senior management endeavor to be responsive to community input through product development and flexible underwriting criteria to make credit more widely available, throughout its local community, within the bounds of safe and sound banking practices. Since the last examination, the bank has taken measures to offer a wider variety of residential mortgage products, and has expanded its small business loan programs. Historically, the bank had retained residential mortgage loans on the books of the institution. However, in an effort to maintain a desired asset/liability mix and meet identified community credit needs, the bank has (1) introduced a funding strategy which includes sales of mortgages in the secondary market (2) formed East Penn Mortgage Company, a mortgage origination subsidiary, and (3) added the U.S. Small Business Administration's (SBA) Low Documentation Program to its traditional SBA programs listing.

East Penn Bank=s loan and deposit product offerings to consumers and businesses generally include the following:

DESCRIPTION OF INSTITUTION (continued):

East Penn Bank	
Loan Products	**Deposit Products**
Installment Loans	Checking Accounts
Automobile Loans	Savings Accounts
Home Equity/Improvement Loans	Business Accounts
Home Equity Lines of Credit	Certificates of Deposit
Residential Mortgages	Money Market Deposit Accounts
Small Business Loans	Club Accounts
Commercial Loans	Individual Retirement Accounts

A review of the bank=s loan portfolio reflect the bank=s full service orientation and its responsiveness in meeting the credit needs of its assessment area. The Uniform Consolidated Statement of Condition and Income as of June 30, 1997, reported total assets of $109.7 million of which $76.7 million or 70% were loans. The portfolio mix is commensurate with the assessment area=s broad-based credit needs. Given the diverse population demographics and the fair amount of business and residential sectors within the assessment area, both retail and commercial financing opportunities exist. An analysis of the loan portfolio composition revealed that loans secured by residential real estate were $43.1 million or 56% and consumer loans $2.7 million or 3.5%, which collectively accounted for 59.5% of total loans. The percentage of 59.5% generally represents the bank=s retail lending although not all of the loans classified as secured by residential real estate are necessarily consumer purpose loans. The balance of the portfolio was comprised of commercial loans.

DESCRIPTION OF EAST PENN BANK=S ASSESSMENT AREA

East Penn Bank=s assessment area includes all of Lehigh County in the Allentown/Bethlehem/Easton Metropolitan Statistical Area (MSA), and encompasses 72 census tracts.

From 1900 to 1950, the Allentown-Bethlehem-Easton MSA had a diverse manufacturing economy, and iron, steel, silk, textile and clothing were important industries. During that time, the population grew slowly in Easton while it tripled as a result of the steel industry in Bethlehem and Allentown. Following World War II, middle-class families began moving out and by the late 1970's the transition from manufacturing to service employment began to occur. Today, the services industry employs approximately 74,239 employees with a total of 5,373 establishments. The manufacturing industry employs approximately 59,327 persons within 956 establishments, and the retail trade industry has 44,177 employees with 3,507 establishments. The total number of employees in the MSA amounts to 238,738 individuals.

The following table summarizes the composition of the entire assessment area by census tract type and population.

DISCUSSION OF INSTITUTION=S PERFORMANCE (CONTINUED)

DESCRIPTION OF EAST PENN BANK=S ASSESSMENT AREA (continued)

East Penn Bank Assessment Area Census Tracts and Population				
Income Designation	**Number of Census Tracts**	**Percent of Total:**	**Population:**	**Percent of Total:**
Low	4	5.5%	5,283	1.8%
Moderate	11	15.3%	31,282	10.8%
Middle	44	61.1%	187,584	64.4%
Upper	13	18.1%	66,981	23.0%
AA=s Totals	72	100.0%	291,130	100.0%

Source: Federal Reserve System Board of Governors= Community Lending Analysis System (CLAS). CLAS reflects 1990 census data. Other tables and charts presented throughout this evaluation have been derived from CLAS unless otherwise noted.

As noted in the first table below, the median family income for the bank=s assessment area was $38,864 which is higher than the MSA median of $37,523 and the statewide median of $34,856 according to 1990 Census Bureau Statistics. The second table indicates that the bank=s assessment area consists of 79,608 families. Based on the assessment area family median income, 12,496 or 15.7% are designated as low income families, 14,715 or 18.4% are designated as moderate income families, 20,979 or 26.4% are designated as middle-income families, and 31,418 or 39.5% are designated as upper-income families. There are 3,929 families or 4.9% below the poverty level.

East Penn Bank Assessment Area Demographic Comparison			
	Assessment Area	**MSA**	**Pennsylvania**
Median Family Income	$38,864	$37,523	$34,856
Median Housing Value	$97,205	$97,045	$69,075
% Owner-Occupied	66.1%	67.4%	64.3%

Assessment Area - Income Levels		
	Number of Families	**Percent**
Low	12,496	15.7
Moderate	14,715	18.4
Middle	20,979	26.4
Upper	31,418	39.5
Total	79,608	100.0%

Sixty-six percent of the housing units in the bank=s assessment area are owner-occupied which is slightly higher than the statewide rate of ownership of 64%. However, the number of owner-occupied housing units in the assessment area is lower than the MSA which is 67%. The median value of the housing units in the

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DESCRIPTION OF EAST PENN BANK=S ASSESSMENT AREA (continued):

assessment area is $97,205 with more than sixty-six percent of the housing stock in the assessment area valued between $61,000 and $150,000. This median housing value is significantly higher than the statewide median value of $69,075, although it is comparable to the MSA=s median value of $97,045. Not surprisingly, the affordability ratio[1] for the assessment area of .334% is slightly superior to the MSA at .328%, however reflective of the disparity in median housing values the assessment area lags behind the statewide ratio of .421%. The need for affordable housing in relation to the assessment area=s median income continues to characterize the area.

Assessment Area - Housing			
	Total Units	**Owner Occupancy**	**Percent Owner Occupied**
Low	2,376	541	22.8%
Moderate	12,973	6,203	47.8%
Middle	77,942	51,980	66.7%
Upper	25,044	19,524	78.0%
Total	118,335	78,248	66.1%

This chart represents the number of owner occupied housing units relative to the number of total available units. The disparity in home ownership for the overall assessment area is evident in low and moderate income tracts, with the most significant deviation being between low-income tracts and all other tracts. Such disparity is reflective of a number of circumstances. First, all low- and moderate-income census tracts within the bank=s assessment area are located in the city of Allentown. As the commercial and industrial hub of Lehigh County, Allentown, has fewer housing units available for residential use. Another factor is 65.1% of total housing units in low income tracts are rental units, with a lower but still significant comparable percentage of 44.9% in moderate-income tracts. These percentages are significantly higher than 29.1% and 18.3%, which represent the percentage of rental units in middle- and upper- income geographies, respectively.

The median housing value relative to low- and moderate-income levels is also an obstacle-to home ownership in these areas. A review of statistics on rental prices relative to income levels suggest that the rents in low- and moderate-income geographies are more reasonable relative to the income levels of the residents and provide more affordable housing. Specifically, only 5.9% of renters dwelling in low-income tracts pay more than 30% of their income for rent. This percentage increases to 19.5% for renters in moderate-income tracts but, remains well below the 64.5% of renters in middle income tracts. Not surprisingly, the upper income tract percentage was only 10%.

Such housing statistics are consistent with input provide through an interview with a community contact made at this examination regarding the predominance of rental housing. The discussion of rental housing emanated from the contact=s concern over the considerable level of substandard rental housing in the

[1] The affordability ratio is calculated by dividing the median household income for a given area by the median housing value for that area. The figure represents the amount of single family owner-occupied housing that a dollar of income can purchase for the median household in the area. Values closer to 1 indicate greater affordability.

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DESCRIPTION OF EAST PENN BANK=S ASSESSMENT AREA (continued):

community. The contact indicated that a significant need exists for affordable and well maintained rental housing in low-and moderate-income geographies. The contact further indicated that although a number of excellent home-ownership programs exist, rental housing that is both affordable and well maintained is currently the assessment area=s most pressing need.

Based on 1990 statistics, unemployment for the assessment area was 4.7%, identical to the MSA unemployment rate, and significantly better than the Pennsylvania statewide rate of 5.9%. As of July 1997, unemployment statistics for both the MSA and state were identical at 5.4%.

LABOR SUMMARY STATISTICS COMPARISON OF THE AA/MSA/STATE OF PENNSYLVANIA					
	Total Persons 16 or Older	**Labor Force**		**Unemployed**	
	Number	**Number**	**Percent**	**Number**	**Percent**
ASSESSMENT AREA	232,076	151,621	65.3%	7,136	4.7%
MSA	472,816	301,034	63.7%	14,035	4.7%
STATE	9,392,816	5,797,937	61.7%	344,795	5.9%

The bank=s assessment area is quite diverse from the standpoint of both credit needs and economic vitality. The city of Allentown continues to face problems related to economic revitalization, job creation, and the need for affordable-quality housing, both owner occupied as well as non-owner occupied. The suburban areas are generally more affluent and expanding rapidly in terms of economic growth and population as well. The area most in need of economic stimulation in the bank=s assessment area continues to be the city of Allentown. Consistent with the assessment area=s needs both retail and commercial financing opportunities exist that would benefit the housing and business sectors of the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

LOAN-TO-DEPOSIT RATIO:

EPB maintains a high level of loans in relation to both total deposits and total assets. The bank=s loan-to-deposit ratio is more than reasonable given the institution=s size, financial condition, and assessment area credit needs. According to the June 30, 1997 Uniform Bank Performance Report (UBPR), the bank=s loan-to-deposit ratio at mid year 1997 was 78.35% compared to its peer bank ratio of 69.17%. Peer data refers to all insured commercial banks with assets between $100 million and $300 million with two or less banking offices in a metropolitan area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued)

LOAN-TO-DEPOSIT RATIO (continued):

The following table depicts the bank=s loan-to-deposit ratio and growth rates for the last three years:

	12/31/96	12/31/95	12/31/94
Loan- to- Deposit Ratio	80.16%	78.52%	75.55%
Asset Growth	25.12%	12.44%	5.33%
Net Loan Growth	29.41%	16.45%	34.34%

As demonstrated in the table above, the bank continues to grow rapidly while maintaining a consistent balance sheet composition of loans relative to deposits. In the last three years, the loan-to-deposit ratio has been consistently above 75%.

The following table depicts the institution=s quarterly loan-to-deposit ratios since the previous examination. It also presents an average loan-to-deposit ratio[2]. Since the previous Consumer Affairs examination of November 20, 1995, EPB=s loan-to-deposit ratio averaged 79.86% over the last seven quarters compared to its peer institutions= average of 67.87% for the same period. Moreover, for most of 1996 the ratio evidenced an increasing trend.

As Of	Net Loans(thousands)	Deposits(thousands)	Ratio
12/31/95	$54,214	$69,049	**78.52%**
03/31/96	$56,903	$72,623	**78.35%**
06/30/96	$60,320	$75,969	**79.40%**
09/30/96	$65,500	$77,530	**84.48%**
12/31/96	$70,159	$87,523	**80.16%**
03/31/97	$73,377	$92,011	**79.75%**
06/30/97	$75,948	$96,940	**78.35%**
Quarterly Loan to Deposit Ratio Average Since Previous Examination			**79.86%**

When evaluating lending performance, the assessment took into consideration the fact that the bank=s above average loan-to-deposit ratios have been maintained even as the bank embarked on a strategy to sell its loans in the secondary market. As previously referenced, during the period between examinations, the bank sold approximately $7 million in residential mortgage loans into the secondary market. This strategy has enabled the bank to offer a wider variety of competitively-priced residential mortgage products to its customers. The sale of mortgages is not reflected in the loan-to-deposit ratios.

[2] The quarterly loan-to-deposit ratio average is derived by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters.

DISCUSSION OF INSTITUTION=S PERFORMANCE (CONTINUED)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued)

LENDING IN ASSESSMENT AREA:

A review of the bank=s loan mix reflects the institution=s full service orientation with a response to retail credit being most apparent. As previously noted, loans secured by residential real estate of $43.1 million and consumer loans of $2.7 million, collectively accounted for 59.5% of total loans. The balance of the portfolio was comprised of commercial loans, extended primarily to small businesses. Comparisons to the loan mix at June 30, 1996 reflect a similar distribution, with proportionate loan growth between 1996 and 1997 evident in each of the categories noted.

The analysis of the bank=s lending profile in its delineated community revealed that a significant majority of the bank=s loans were made within its assessment area.

The following tables depict the volume of loans extended inside and outside of the bank=s assessment area. For purposes of CRA analysis, the market penetration evaluation was based primarily upon the bank=s 1996 and year-to-date July 31, 1997 HMDA Loan Application Registers (LARs), consumer lending in 1996 and the first seven months of 1997, and commercial loans made to small businesses in 1996. Based upon an analysis of the loan information, 91% of the loans reviewed were extended to geographies within the bank=s assessment area. The following tables provide the market penetration profile for each of the loan categories evaluated.

HMDA LOAN PENETRATION						
	1996		**Y-T-D 7/31/97**		**TOTAL**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
INSIDE	66	85.7	55	90.1	121	87.7
OUTSIDE	11	14.3	6	9.9	17	12.3
TOTAL	77	100.0%	61	100.0%	138	100.0%

CONSUMER LOAN PENETRATION						
	1996 Consumer Loans		**Sample of Consumer Loans Y-T-D 7/31/97**		**TOTAL**	
	Number	**Percent**	**Number**	**Percent**	**Number**	**Percent**
INSIDE	419	91.3	89	93.7	508	91.7
OUTSIDE	40	8.7	6	6.3	46	8.3
TOTAL	459	100.0%	95	100.0%	554	100.0%

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued):

LENDING IN ASSESSMENT AREA (continued):

COMMERCIAL LOAN PENETRATION		
	Number	**Percent**
INSIDE	224	93.0
OUTSIDE	17	7.0
TOTAL	241	100.0%

The aforementioned tables illustrate on a consistent basis that the concentration of the bank=s credit is within its defined assessment area. Given the definition of the assessment area, this profile is consistent with management=s goal to become the primary community banking alternative in the area.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:

A review of the demographic and economic characteristics of the assessment area, in conjunction with an analysis of HMDA and other bank data, was conducted to ascertain the extent of bank lending to borrowers of different incomes and to businesses of different sizes. It was determined that the bank=s lending profile exhibited a reasonable penetration among borrowers of different income levels and to businesses of different sizes.

The Allentown-Bethlehem-Easton MSA 1996 adjusted median family income is $43,800 as estimated by the U.S. Department of Housing and Urban Development (HUD). The following income categories have been established by HUD as levels of income for statistical purposes.

Low Income:	Less than 50% of the Median MSA Income **Less than $21,900**
Moderate Income:	At least 50% and less than 80% of the Median MSA Income **From $21,900 through $35,039**
Middle Income:	At least 80% and less than 120% of the Median MSA Income **From $35,040 through $52,559**
Upper Income:	120% or more of the Median MSA Income **$52,560 or greater**

An analysis of the bank=s loan portfolio was conducted to determine the distribution of loans to borrowers of different incomes and to businesses of different sizes. This analysis is predicated upon the demographic composition of the assessment area which is as follows: 16% of the families located in the bank=s assessment area were categorized as low- income; 18% were categorized as moderate income; 26% were categorized as middle-income; and, 40% were categorized as upper-income families. The tables below depict the borrower income distribution for the loans reviewed.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued):

A review of the bank's HMDA LARs revealed the following income distribution for loans contained within the bank=s assessment area:

HMDA BORROWER INCOME DISTRIBUTION						
	1996		Y-T-D 7/31/97		TOTAL	
	Number	Percent	Number	Percent	Number	Percent
LOW	3	4.5	4	7.3	7	5.8
MODERATE	8	12.1	4	7.3	12	9.9
MIDDLE	18	27.3	12	21.8	30	24.8
UPPER	37	56.1	35	63.6	72	59.5
TOTAL	66	100.0%	55	100.0%	121	100.0%

The HMDA report contains information regarding the income of the applicant(s) for mortgage-related credit. Generally, the report contains income derived from employment verification and other sources considered by the bank to approve the loan application. Therefore, the borrower income distribution depicted above was determined be an accurate reflection of borrowers income in relation to the median family income utilized for analysis purposes.

A review of 508 consumer loans originated within the bank=s assessment area revealed the following income distribution:

CONSUMER LOAN BORROWER INCOME DISTRIBUTION						
	1996 Consumer Loans		Sample of Consumer Loans Y-T-D 7/31/97		TOTAL	
	Number	Percent	Number	Percent	Number	Percent
LOW	52	12.4	13	14.6	65	12.8
MODERATE	83	19.8	11	12.4	94	18.5
MIDDLE	97	23.2	31	34.8	128	25.2
UPPER	187	44.6	34	38.2	221	43.5
TOTAL	419	100.0%	89	100.0%	508	100.0%

The table below compares assessment area demographics with the institution=s distribution of loans to borrowers of different incomes.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued):

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued):

	Assessment Area Income Distribution	HMDA Loans	Consumer Loans
LOW	15.7%	5.8	12.8
MODERATE	18.4%	9.9	18.5
MIDDLE	26.4%	24.8	25.2
UPPER	39.5%	59.5	43.5
Total	100.0%	100.0%	100.0%

A review of the bank=s small business lending was also conducted at this examination. For the purpose of this CRA analysis, a small business loan is defined in the same way as it is 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, 1997, substantially all of the bank=s commercial loans are classified as small business loans and are detailed below in the following chart.

LOANS TO SMALL BUSINESSES		
	Amount Outstanding at 6/30/97 (Dollars expressed in thousands)	Percent
Loans with original amounts of $100,000 or Less	$6,780	21.6%
Loans with original amounts of more than $100,000 through $250,000	$9,964	31.8%
Loans with original amounts of more than $250,000 through $1,000,000	$13,219	42.1%
TOTAL ASMALL BUSINESS LOANS@	$29,963	95.5%
Loans with original amounts of Greater than $1,000,000	$1,401	4.5%
Total Commercial Loans	$31,364	100.0%

As depicted in the table above, $299 million or 95.5% of the institution=s total commercial loans were classified as small business loans as of June 30, 1997. This compares favorably with the percentage of commercial loans classified as small business loans in the previous year. As of June 30, 1996, $20.5 million or 88% of the institution=s commercial loans were classified as small business loans. Additionally, the number of commercial loans classified as small business loans also increased from 313 loans at mid-year 1996 to 403 at mid-year 1997, representing a 29% increase in the number of small business loans outstanding.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued):

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued):

Additionally, small business loans were analyzed to determine whether or not they were made to businesses with gross annual revenues of less than $1 million. This review revealed that 94% of the commercial loans reviewed were made to borrowers with gross annual revenues of less than $1 million. The distribution of business loans was determined to be consistent with the institution's asset size and lending capacity.

The bank's loan distribution by borrower income was determined to be satisfactory when the loan portfolio is considered in its totality, However, the assessment did disclose that the bank's HMDA loan activity does not closely correlate to actual income distribution of the assessment area population. For instance, thirty-four percent of the families in the bank's assessment area are low- and moderate-income families; however, only sixteen percent of HMDA loans were made to low- and moderate-income borrowers. Conversely, nearly sixty percent of the HMDA loan originations were made to upper-income borrowers, yet upper income families constitute only forty percent of the families in the bank's assessment area. This distribution is partially attributable to the disparity between the median family income and the median housing value in the assessment area, particularly for low- and moderate-income individuals. This disparity makes home purchases less affordable in the assessment area than in the MSA or the state as previously illustrated by the affordability ratio statistics. Moreover, the bank's size and capacity has only recently reached the point where the institution can effectively compete in purchase money mortgage loan activity with special products designed to better service low and moderate income individuals.

Since the bank opened for operations, management has endeavored to be a full service lender within its capacity and resources. As the HMDA data suggests, home purchase lending has not been the bank's primary product line in view of the internal resource capacity required to routinely underwrite mortgage loans. However, the bank has been a consistent lender and has evidenced an affirmative response in the context of the volume of its other retail and small business lending. The bank's consumer loan borrower income distribution seems to mirror the actual income distribution of the lower-and moderate-income populations. Moreover, the bank's performance with respect to commercial borrowers evidences a focus on small businesses, as ninety-four percent of the commercial loans reviewed were made to borrowers with gross annual revenues of less than $1 million. Since county business patterns for Lehigh County indicate that ninety-four percent of total business establishments employ between one and forty-nine employees. It has been concluded that the bank has demonstrated an ability to affirmatively meet the credit needs of small businesses which is the area's most significant business sector.

DISCUSSION OF INSTITUTION=S PERFORMANCE (CONTINUED)

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued):

GEOGRAPHIC DISTRIBUTION OF LOANS:

Census Tracts	Assessment Area Population	1996 & Y-T-D 7/31/97 HMDA Loans	1996 & Y-T-D 7/31/97 Consumer Loans	1996 Commercial Loans
LOW	1.8%	1.7%	0.0%	1.0%
MODERATE	10.8%	0.8%	1.8%	5.3%
MIDDLE	64.4%	52.1%	59.8%	62.5%
UPPER	23.0%	45.4%	38.4%	31.2%
TOTAL	100.0%	100.0%	100.0%	100.0%

The examination revealed a less than reasonable geographic distribution of lending within the low- and moderate-income census tracts of the bank=s assessment area. The geographic distribution analysis of the bank=s loans was conducted in an effort to determine the distribution of loans among different geographies within the bank=s assessment area. The main focus of the analysis was evaluating the dispersion of loans among low-, moderate-, middle-, and upper-income geographies. According to U.S. Census data, 13% of the bank=s assessment area=s population reside in low- to moderate-income census tracts, 64% in middle-income census tracts, and 23% in upper-income census tracts. The table above compares the demographics of the assessment area with the bank=s distribution of loans according to census tract designation. Although 13% of the bank=s assessment area=s population reside in low- and moderate-income census tracts, only 3% of HMDA loans, 2% of consumer loans and 6% of commercial loans were made in these geographies during the period reviewed.

While this performance warrants improvement, it must be acknowledged within the context of the performance assessment that the bank=s effective lending territory has only recently begun to expand into the Allentown area where these tracts exist. As previously noted in this evaluation, these geographies are comprised of a concentration of rental dwellings compared to housing stock in middle and upper income census tracts; and home purchase activity within this market is serviced primarily by larger institutions with expansive branching systems. Going forward, the institution=s recent measures to bolster loan growth through its new mortgage company and branches should support the bank=s capacity to attain a presence more commensurate with its resources.

The following charts provide details of the geographic distribution of credit as evidenced by the bank=s 1996 and year to date July 31, 1997 HMDA Loan Application Registers, and consumer and commercial loans sampled during the examination.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (continued):

GEOGRAPHIC DISTRIBUTION OF LOANS (continued):

LENDING PROFILE BY CENSUS TRACT								
			1996 Consumer Loans		Sample of Y-T-D 7/31/97 Consumer Loans		TOTAL	
	#of Tracts	% of Population	Number	Percent	Number	Percent	Number	Percent
LOW	4	1.8	0	0.0	0	0.0	0	0.0
MODERATE	11	10.8	7	1.7	2	2.2	9	1.8
MIDDLE	44	64.4	263	62.8	41	46.1	304	59.8
UPPER	13	23.0	149	35.5	46	51.7	195	38.4
TOTAL	72	100.0%	419	100.0%	89	100.0%	508	100.0%

1996 Commercial Loan Census Tract Distribution				
	# of Tracts	% of Population	Number	Percent
LOW	4	1.8	2	1.0
MODERATE	11	10.8	12	5.3
MIDDLE	44	64.4	140	62.5
UPPER	13	23.0	70	31.2
TOTAL	72	100.0%	224	100.0%

COMPLIANCE WITH ANTIDISCRIMINATION LAWS:

A review of the bank's credit policies revealed no evidence of prohibited discriminatory practices such as prescreening or the discouragement of applicants for the types of credit that are set forth in the bank's CRA statement. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including: the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act and other agency regulations pertaining to nondiscriminatory treatment of credit applicants.

The institution solicits credit applications from all segments of its community. Management has established consumer and commercial loan policies that evidence its commitment to evaluate and offer credit requests without regard to any prohibited basis. Furthermore, management has also adopted measures, including formal training, to ensure that bank employees are apprised of the requirements of consumer protection statutes and other regulations that pertain to discrimination.