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Comptroller of the Currency  
Administrator of National Banks

Small

Bank

Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

August 16, 1999

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

**First National Bank of Leesport  
Charter Number: 9495**

**133 North Centre Avenue  
Leesport, Pennsylvania, 19533**

**Office of the Comptroller of the Currency  
Northeastern Pennsylvania Field Office  
100 Hazle Street, Suite 202  
Wilkes-Barre, Pennsylvania 18702**

**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 financial supervisory agency 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 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 CRA performance of the **First National Bank of Leesport** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 16, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

### **INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.

The factors supporting the bank's overall rating include:

- < a good loan to deposit ratio;
- < a majority of loans being made in the bank's assessment area;
- < a reasonable loan penetration among people of different income levels;
- < a very good penetration among businesses of different sizes; and
- < a good geographic distribution of business loans in the low- and moderate-income census tracts of the assessment areas.

## **DEFINITIONS AND COMMON ABBREVIATIONS**

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract** - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogeneous populations. A census tract has defined boundaries per ten year census and an average population of 4,000.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The report includes such data as the race, gender and the income of the applicants, the amount of the loan requested, and its disposition (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income** - Income levels that are less than 50% of the MFI.

**Moderate-Income** - Income levels that are at least 50% and less than 80% of the MFI.

**Middle-Income** - Income levels that are at least 80% and less than 120% of the MFI.

**Upper-Income** - Income levels that are 120% or more of the MFI.

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank may be required to collect and report certain monitoring data under the CRA regulation.

## **DESCRIPTION OF INSTITUTION**

The First National Bank of Leesport (FNBL) is a \$271 million independent banking institution, founded in 1909 and located in central Pennsylvania. The bank's administrative offices are located in Wyomissing and the headquarters and main office are in Leesport, Berks County, Pennsylvania. FNBL is a wholly-owned subsidiary of First Leesport Bancorp, Inc. which has assets of approximately \$330 million. This holding company has one other operating subsidiary as of July 1, 1999, the Merchants Bank of Shenandoah. The bank operates an insurance agency, Essick & Barr, Inc., a wholly owned subsidiary of the bank.

FNBL is a full-service retail bank with the main office and its seven branch offices all situated in Berks County. Of the eight locations, six are in middle-income census tracts and two are in upper-income census tracts. Three of the branch offices have opened since February 1998. Seven offices have ATMs and drive-through windows and all offer extended business hours, which include Thursday and Friday evenings and Saturday mornings. The eighth office is located in a retirement village and offers limited service hours. The bank also offers 24-hour telephone banking and Internet personal and business banking services. A variety of loan and deposit products are available to consumers and businesses, including free checking to consumers with no minimum balance requirements.

Primary loan products include home loan refinancing and small business loans. The loan portfolio represents 74% of total assets. A breakdown of the portfolio as of June 30, 1999 is as follows: 51% residential mortgages, 41% commercial and commercial real estate loans, and 8% consumer installment loans. Agricultural lending is minimal. FNBL actively sells its residential mortgage loans on the secondary mortgage market.

Major competitors in the area include Sovereign Bank, Berks County Bank, Dauphin Deposit Bank, First Union and many regional and small community banks. As of June 30, 1998, FNBL's market share of all deposits held by FDIC-insured institutions operating in Berks County was 4.05%.

There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community. At the last CRA examination, dated February 19, 1997, the institution was rated "satisfactory."

## **DESCRIPTION OF ASSESSMENT AREA**

FNBL has one assessment area (AA) in Pennsylvania. The AA contains 52 census tracts in Berks County, in the Reading MSA. The AA's population is 207,762. The income designations for the area's census tracts are as follows:

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts	% of Total Tracts
Low	4	8
Moderate	15	29
Middle	27	52
Upper	6	11
Total	52	100

Eighty-five percent of the housing in the AA is one- to four-family units; 11% are multifamily units; 2% are mobile homes; and 2% are condominiums. Of the total housing units in the AA, 66% are owner-occupied, 28% are renter-occupied, and 6% are vacant. The average cost of housing in the AA is \$71,849, with the average year built of 1953.

The 1990 U.S. Census Median Family Income for the AA is \$37,755. The 1999 Updated Median Family Income is \$48,200. A family would be considered low-income with an income of \$24,100 or less. With housing costs averaging \$71,849 it is financially difficult for low-income families to afford average homes in the area. Additionally, 10% of all of the households in the AA have incomes below the poverty level.

For June 1999 both the state of Pennsylvania and Berks County had an unemployment rate of 4.3%.

According to the 1998 business demographics for the AA, there are 6,802 businesses, of which 210 are farms. Small businesses (those with revenues less than \$1 million) represent 87% of the 5,578 businesses reporting revenues. Approximately 80% of businesses reported having less than ten employees. The primary industries in this AA are services at 40%, retail trade at 23%, and construction at 10% of all businesses. The largest employers in the area are the Reading Hospital and Medical Center, East Penn Manufacturing Company, Carpenter Technology Corporation, the Berks County Services Center, and Lucent Technologies, Inc.

## Determination of Community Credit Needs

### Community Contacts

Credit needs in the local area were determined by contacting a local chamber of commerce, reviewing a recent contact with a social services organization, and discussions with management. The chamber contact indicated that the economy was doing well and that unemployment was very low. It was felt

that most credit needs were being met by the local financial institutions. However, it was perceived that low-income senior citizen housing is a growing need in the community as the population is aging.

The social services organization also stated that the economic conditions were stable and believed that banks needed to offer more flexible lending programs to low- and moderate-income individuals so that they would be eligible to purchase decent single-family housing units.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

### **SCOPE OF EXAMINATION**

This examination covered the period January 1, 1997 to August 16, 1999. The analysis of a sampling of the HMDA reportable loan products covered the period January 1, 1997 to June 30, 1999. Refinances were selected as a primary loan product because of the origination volume. During the period covered by this examination, 51% of the number of all HMDA reportable originations were refinances, 41% were purchase money mortgages and 8% were home improvement loans. Due to electronic data limitations, our analysis used HMDA data from 1997 and a sample of 40 loans, originated in 1998 and 1999.

Small business loans were also chosen as a primary loan product. We selected a sample of 25 business loans totaling \$2.1 million which were originated between September 1, 1998 (when new loan tracking reports became available) and June 30, 1999. We selected these loans from a total population of 389 loans aggregating \$53 million. The small business sample represented 6% of the number and 4% of the dollar volume of loan originations during this period.

All dollar amounts in the tables within this report are in thousands (000s) unless otherwise indicated.

### **Loan to Deposit Analysis**

The loan to deposit ratio meets the standards for satisfactory performance. It is reasonable given the bank's size, financial condition, and AA credit needs. The bank's loan to deposit ratio, averaged over the previous ten quarters since the last CRA review, is 86%. This compares favorably to the national peer (71%) and the local peer (91%). The local peer group consists of local financial institutions with total assets ranging from \$100 million to \$250 million.

### **Lending in Assessment Area**

The bank's lending in the AA meets the standards for satisfactory performance. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. A majority of loans and other lending related activities are in the bank's AA. The AA penetration of

refinance loans is illustrated in the following chart. Also, 21 of the 25 loans (or 84%) in our small business loan sample were originated inside the AA.

Refinance Loan Originations						
	1997		1998		January 1, 1999 - June 30, 1999	
	#/%	\$/%	#/%	\$/%	#/%	\$/%
Inside AA	62 / 70	5,355 / 69	19 / 95	1,463 / 94	13 / 65	1,396 / 71
Outside AA	27 / 30	2,414 / 31	1 / 5	90 / 6	7 / 35	580 / 29
Total	89 / 100	7,769 / 100	20 / 100	1,553 / 100	20 / 100	1,976 / 100

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

Lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance. The primary product lines reviewed were refinance loans and small business loans, as previously mentioned. The table below indicates the distribution of loans to borrowers of different incomes.

Refinance Loan Originations by Level of Borrower Income in the AA							
Income Category	1997		1998		January 1, 1999 - June 30, 1999		% of Families Within AA
	#/%	\$/%	#/%	\$/%	#/%	\$/%	
Low	0 / 0	0 / 0	0 / 0	0 / 0	1 / 8	59 / 4	19
Moderate	11 / 18	584 / 11	8 / 42	468 / 32	0 / 0	0 / 0	20
Middle	18 / 29	1,159 / 22	2 / 11	161 / 11	3 / 23	175 / 13	26
Upper	33 / 53	3,592 / 67	9 / 47	834 / 57	9 / 69	1,162 / 83	35
Total	62 / 100	5,335 / 100	19 / 100	1,463 / 100	13 / 100	1,396 / 100	100

Disparity in the low-income category is noted. However, as noted earlier, a low-income family has earnings of \$24,100 or less. With housing costs averaging \$71,849, it is financially difficult for low-income families to afford average homes in the area. This mitigates a lower level of refinance lending to low-income individuals. Also, a homeowner with a smaller outstanding mortgage balance is less likely to be interest rate sensitive when interest rates fall, the primary reason for individuals to refinance their existing mortgage debt. FNBL management believes that the lower interest rates in the past few years is the reason that refinances have been their primary HMDA product.

The table depicts good performance for moderate-income borrowers in 1997 and 1998 with no activity in the sample for the 1999 period. However, it was noted by management that early in 1999, the bank experienced significant turnover in mortgage origination personnel. A manual review of the year-to-date 1999 data did reveal twelve originations, outside of the sample, in the AA for moderate-income borrowers or over 11% of the 105 refinance originations for that period.

As indicated in the table below, FNBL has a very good record of lending to smaller businesses. Our sample of 21 small business loans, by dollar amount, disclosed that 95% of the loans were to businesses with revenues under \$250 thousand. The bank's record during the evaluation period shows that it is working to meet this need.

Additionally, our sample disclosed that all of these sampled loans were to small businesses. This compares very favorably to the fact that 71% of the businesses in the AA are small businesses, and illustrates the bank's focus on small business lending.

Distribution of Business Loans by Revenue Size within the AA				
Business Revenue Size	# Loans	%	\$ Amount	%
<b>0 &lt; \$100</b>	<b>17</b>	<b>81</b>	<b>1,328</b>	<b>79</b>
<b>\$100 &lt; \$250</b>	<b>3</b>	<b>14</b>	<b>270</b>	<b>16</b>
<b>\$250 &lt; \$500</b>	<b>1</b>	<b>5</b>	<b>80</b>	<b>5</b>
<b>\$500 &lt; \$1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>over \$1,000</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total</b>	<b>21</b>	<b>100</b>	<b>1,678</b>	<b>100</b>

As noted below, the vast majority of the small business loans were in smaller amounts. Our sample of 21 business loans in the AA disclosed that 95% were for amounts less than \$250 thousand. In fact, the average original loan amount for all of the loans in the sample was \$80 thousand.

Distribution of Small Business Loans by Loan Size in the AA				
Loan Size	# Loans	%	\$ Amount	%
<= \$100	17	81	753	45
>\$100 <=\$250	3	14	485	29
>\$250 <=\$1,000	1	5	440	26
<b>Total</b>	<b>21</b>	<b>100</b>	<b>1,678</b>	<b>100</b>

### Geographic Distribution of Loans

The geographic distribution of refinance loans does not meet the standards for satisfactory performance. The following table depicts the distribution of refinance loan originations by census tract characteristic.

Geographic Distribution of Refinance Loan Originations by Census Tract Characteristic in the AA							
Income Category	1997		1998		January 1, 1999 - June 30, 1999		% of Owner Occupied Households
	#/%	\$/%	#/%	\$/%	#/%	\$/%	
Low	1 / 2	49 / 1	0 / 0	0 / 0	0 / 0	0 / 0	2
Moderate	1 / 2	105 / 2	0 / 0	0 / 0	0 / 0	0 / 0	15
Middle	52 / 84	4,504 / 84	16 / 84	1,087 / 74	10 / 77	1,147 / 82	65
Upper	8 / 12	677 / 13	3 / 16	376 / 26	3 / 23	249 / 18	18
<b>Total</b>	<b>62 / 100</b>	<b>5,335 / 100</b>	<b>19 / 100</b>	<b>1,463 / 100</b>	<b>13 / 100</b>	<b>1,396 /100</b>	<b>100</b>

While the FNBL does not have any branches in the low- or moderate-income tracts, their lending does not reflect a reasonable dispersion of loans throughout their chosen AA. However, in this AA, owner-occupied households are predominantly located in middle- and upper-income census tracts, where the bank has its branches. As a result, most of the refinance loans are in these two areas. Also, in the low-income census tracts, 35% of the households have incomes below the poverty level and less than 30% of the housing units are owner occupied. In the moderate-income tracts, over 20% of the households have incomes below the poverty level and only 47% of the housing units are owner occupied. These factors limit the bank's ability to attract refinance loans in these areas.

The geographic distribution of small business loans is good, particularly in the low- and moderate-income area. Our sample illustrates this:

<b>Geographic Distribution of Small Business Loans in the AA</b>					
Census Tract	#	%	\$	%	% Businesses in each tract
Low	1	5	100	6	6
Moderate	4	19	154	9	18
Middle	13	62	909	54	59
Upper	3	14	515	31	17
Total	21	100	1,678	100	100

## **Response to Complaints**

During the evaluation period, FNBL did not receive any complaints about its performance in meeting AA credit needs.

## **Record of Compliance with Anti-discrimination Laws**

The concurrent fair lending examination did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations. In addition, no evidence was found of discriminatory or other illegal practices. Our fair lending examination focused on a comparison of the loan terms for approved refinance real estate loans for male and female borrowers.