



LARGE BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**Harleysville National Bank & Trust Co
Charter Number: 9541**

**483 Main Street
Harleysville, Pennsylvania 19438**

Office of the Comptroller of the Currency

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NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, and should not be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Overall CRA Rating

Institution’s CRA Rating: This institution is rated **“Satisfactory.”**

The following table indicates the performance level of **Harleysville National Bank & Trust Company** with respect to the Lending, Investment, and Service Tests:

Performance Levels	Harleysville National Bank & Trust Company Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

* The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors that support this rating include:

- HNB's lending levels reflect good responsiveness to community credit needs.
- Borrower distribution of loans is excellent and geographic distribution is good.
- HNB made an adequate level of community development loans that had a neutral impact on the bank's Lending Test rating.
- HNB’s use of flexible credit products to meet the needs of their assessment area had a neutral impact on the bank's Lending Test rating.
- HNB made a good level of qualified community development investments and grants.
- Service delivery systems are accessible to geographies and individuals of different income levels in the assessment area.
- HNB provides a good level of community development services.

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.

Affiliate - Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. The U.S. Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the U.S. Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

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.

Full-Scope Review - Performance under the lending, investment, and service tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography - A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

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

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Limited-Scope Review - Performance under the lending, investment, and service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

Low-Income - Income levels that are less than 50 percent of the median family income.

Median Family Income (MFI) - The median income determined by the U.S. Census Bureau every ten years and used to determine the income level category of geographies. 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.

Metropolitan Statistical Area (MSA) - Area defined by the director of the U.S. 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.

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

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

Small Loans to Businesses - Loans with original amounts of \$1 million or less that are: (1) secured by non-farm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Loans to Farms - Loans with original amounts of \$500,000 or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

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

Description of Institution

Harleysville National Bank & Trust Company (HNB) is a \$1.4 billion (as of December 31, 2000) intrastate community bank. HNB is a wholly owned subsidiary of Harleysville National Corporation (HNC), a \$1.9 billion three-bank holding company. Both entities are headquartered in Harleysville, Pennsylvania. HNB owns an insurance operating subsidiary. This subsidiary has no impact on the bank's ability to meet its CRA obligations. In addition to HNB, HNC also owns Security National Bank (SNB) of Pottstown, PA and Citizens National Bank of Lansford, PA. The bank did not request us to consider affiliate activities in this performance evaluation.

In addition to providing a complete range of commercial and personal banking products, HNB also offers trust services and alternative investment products. Discussion with management indicated that the bank's strategy varies based upon market conditions and consumer demand.

As of December 31, 2000 HNB had net loans and leases totaling \$868 million, which represented 63% of total assets. Commercial and commercial real estate loans represent 32% of average gross loans and leases, followed by residential real estate (32%), consumer loans (19%), municipal loans (2%) and construction and development loans (2%). Lease financing receivables (consumer and commercial) represent 13% of average gross loans and leases. As of December 31, 2000, HNB reported Tier 1 capital of \$96 million. There are no legal, financial or other factors impeding HNB's ability to help meet the credit needs of its assessment area.

HNB operates 23 branches all located within the Philadelphia PMSA #6160. Seventeen are located in Montgomery County, five are in Bucks County, and one is in Chester County. Three of the branches are located within retirement communities and have limited access to residents and employees of those communities. During the evaluation period, HNB opened one branch in a middle-income geography. One branch was also opened in a retirement community located in an upper-income geography. No branches were closed.

HNB was rated "Satisfactory" at its last CRA evaluation dated February 16, 1999.

Scope of the Evaluation

Evaluation Period/Products Evaluated

With the exception of community development (CD) loans, the evaluation period for the Lending Test is January 1, 1999 through December 31, 2000. For CD loans, the Investment Test and the Service Test, the evaluation period is February 17, 1999 through March 12, 2001.

For the Lending Test, HNB's origination/purchase of home mortgage loans, small loans to businesses and CD loans were evaluated. HNB originated/purchased one small loan to farms during the evaluation period. Farm lending is not a primary product line of the bank and an analysis is not meaningful.

Data Integrity

As part of this CRA evaluation, publicly filed information for HMDA reportable loans and loans to small businesses was tested for accuracy. Overall, the data integrity of HMDA reportable loans and loans to small businesses is considered accurate.

CD loans, investments and services submitted by management were also verified to ensure that they met the regulatory definition for CD.

Selection of Areas for Full-Scope Review

HNB has one assessment area on the Pennsylvania side of the multistate Philadelphia PMSA #6160 and includes portions of Montgomery (153 tracts), Bucks (101 tracts), and Chester (23 tracts) Counties. There are no low-income tracts and only 9 moderate-income tracts, centered in the boroughs of Norristown and Pottstown. The AA received a full-scope review and our ratings are based on the results of this review. Please refer to the table in Appendix A for additional information.

Ratings

When determining conclusions for the Lending Test, home mortgage products were given more weight. Home mortgage lending represented 65% of the bank's lending during the evaluation period and was an identified community credit need. Within home mortgage products, home improvement lending was given more weight. Home improvement lending represents the majority of home mortgage originations and is also an identified credit need in the assessment area.

Other

Community credit needs and opportunities are discussed in the Market Profile in Appendix C.

Fair Lending Review

An analysis of the most recent HMDA, Small Business, and Small Farm lending data, public comments, and consumer complaint information was performed according to the OCC's risk based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive fair lending examination was performed in February 1999.

Conclusions with Respect to Performance Tests

LENDING TEST

Conclusions for Areas Receiving Full-Scope Reviews

HNB's performance under the Lending Test is rated "High Satisfactory." Based on a full-scope review, the bank's performance in the AA is good.

Lending Activity

Refer to Table 1 in Appendix C for the facts and data used to evaluate HNB's lending activity.

HNB's lending activity is good. Approximately 65% of the loans originated during the evaluation period were home mortgage loans, with small business loans accounting for the remaining 34%. One small farm loan was originated. Agricultural lending is not a primary business line of HNB.

Among home mortgage loan originations, approximately 19% were for home purchase, 57% were for home improvement, and 24% were for home mortgage refinancing. HNB is ranked fifth in deposits in the AA with a 4% market share as of June 30, 2000.

Based on 1999 HMDA aggregate data, HNB ranked 33rd out of 398 lenders in the AA with a 0.8% market share in home purchase lending. The top five originators consisting of a non-bank mortgage lender, three mortgage subsidiaries of large national banks, and one large regional bank had a combined market share of 25%, ranging from a low of 4% to a high of 7%. Other originators in the AA include several other non-bank mortgage lenders and HNB's major competitors. Less than 1% separates HNB from the regional bank with the largest deposit market share in the AA.

Based on this same aggregate data, HNB ranked 1st out of 149 lenders in home improvement lending, with a 9.4% market share. This is excellent given that more than half of the bank's home mortgage originations were for home improvement.

HNB ranked 11th out of 408 lenders in home refinancing with a 1.8% market share. The regional bank with the largest deposit market share has a 7% market share for these loans. Approximately three percentage points separate HNB's market share from the market share of a non-bank mortgage lender that ranks second in market share for home refinancing loans.

Based on 1999 aggregate data, HNB ranks 10th out of 160 lenders in small loans to businesses with a market share of 2.6%. The two top lenders are nationwide credit card issuers and dominate with a combined 42% market share. Other lenders ahead of HNB are much larger regional banks that are strong competitors. Just over three percentage points separate the area's largest regional bank and HNB.

No market share data is available for small loan farms since the bank reported only one farm loan during the evaluation period.

Distribution of Loans by Income Level of the Geography

HNB's geographic distribution is good. Home mortgage lending opportunities are limited in the moderate-income geographies of the assessment area. There are no low-income geographies and only 2% (5,385 units) of owner occupied housing units are located in the moderate-income geographies. Additionally, there is strong competition among financial institutions in the heavily banked moderate-income geographies.

Home Mortgage Loans

Refer to Tables 2, 3 and 4 in Appendix C for the facts and data used to evaluate the geographic distribution of HNB's home mortgage loan originations and purchases.

The geographic distribution of home mortgage loans is good in the AA. The following analysis compares for each home mortgage loan type (i.e., home purchase, home improvement and refinance) the percentage of HNB's lending in moderate-income geographies to the portion of owner-occupied units in these respective income geographies. Also, for each loan type, the bank's market share within moderate-income geographies is compared to the bank's overall market share.

Home purchase loan geographic distribution is excellent. The percentage of home purchase loans made in moderate-income geographies equals the percentage of owner-occupied units in moderate-income geographies. HNB's market share of 2.3% for home purchase loans in moderate-income geographies significantly exceeds its overall market share of 0.8%.

Home improvement loan geographic distribution is good in the AA. HNB originated 1% of its home improvement loans in moderate-income geographies compared to 2% owner occupied housing units that are within those geographies. HNB'S market share of 4.7% in moderate-income geographies is below the bank's overall market share of 9.4%.

Refinance loan geographic distribution is excellent in the AA. The percentage of refinance loans made in moderate-income geographies equals the percentage of owner-occupied housing units that are within those geographies. HNB's market share for refinance loans in moderate-income geographies exceeds its overall market share.

Small Loans to Businesses

Refer to Table 5 in Appendix C for the facts and data used to evaluate the geographic distribution of the bank's origination/purchase of small loans to businesses.

The geographic distribution of small loans to businesses is good based on limited opportunities and strong competition in the moderate-income geographies in the AA. The percentage of small loans to businesses made in moderate-income geographies is below the percentage of businesses that are within those geographies. Three percent (1,600) of all businesses in the AA are in moderate-income geographies compared to 1% of small loans to businesses originated by the bank. HNB's market share of 1.2% in moderate-income geographies is below its overall market share of 2.6%.

Additionally, the boroughs containing the majority of moderate-income geographies in the AA include Norristown (4 tracts) and Pottstown (3 tracts) are heavily banked. Within Norristown, there are 33 branches of other financial institutions and in Pottstown there are 24 branches based on the FDIC Summary of Deposits as of June 30, 2000. The tracts within these boroughs also cover a small geographic area.

Small Loans to Farms

A geographic analysis of small loans to farms is not meaningful. Farm lending is not a primary loan product for HNB. HNB originated only one small loan to a farm during the evaluation period.

Lending Gap Analysis

No unexplained conspicuous gaps were identified based on mapping data detailing HNB's lending activity over the evaluation period for home mortgage loans and small loans to businesses.

Inside/Outside Ratio

A substantial majority (86%) of the home mortgage loans, small loans to businesses, and CD loans originated/purchased by HNB over the evaluation period were within the AA. The volume of loans originated in the AA during the evaluation period by product types are as follows: home mortgage loans 87%, small loans to businesses 86%, and all CD loans were in the AA.

Distribution of Loans by Income Level of the Borrower

HNB's borrower distribution of loans is excellent. The percentage of home mortgage loans originated by the bank generally exceeds or significantly exceeds the percentage of low- or moderate-income borrowers within the AA.

Home Mortgage Loans

Refer to Tables 7, 8 and 9 in Appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

Our analysis revealed that overall lending to low- and moderate-income borrowers for home mortgage products is excellent, especially considering the lack of affordability of homeownership for a low-income borrower in the AA.

The median home price in the assessment area is \$145,251. A low-income person earns less than \$28,900 based on HUD's 2000 updated median family income. It is more difficult for a low-income person to afford a home in the assessment area. Additionally, the lack of affordability for a low-income person to purchase a home limits the opportunities for home improvement and home refinance lending to this segment of the market.

Home purchase loan distribution by borrower income level is excellent. The percentage of home purchase loans made to both low- and moderate-income borrowers significantly exceeds the percentage of families that are low- and moderate-income. The bank originated 29% of its home purchase loans to moderate-income borrowers compared to 15% of the families defined as moderate-income. Also, HNB originated 16% of the loans to low-income borrowers compared to 11% of the families defined as low-income. HNB's market share for home purchase loans to low- and moderate-income borrowers in the AA exceeds its overall market share for home purchase loans.

Home improvement loan distribution by borrower income level is excellent. The percentage of lending to moderate-income borrowers exceeds the percentage of moderate-income families in the AA and equals the percentage of low-income borrowers.

Based on 1999 HMDA aggregate data, HNB is the leader in the market in home improvement lending to both low- and moderate-income borrowers. HNB's market share to low-income borrowers in the AA substantially exceeds its overall market share by nearly two times. The market share to moderate-income borrowers exceeds the overall market share.

Home refinance loan distribution by borrower income level is excellent. The percentage of refinance loans made to moderate-income borrowers significantly exceeds the percentage of families that are moderate-income. The percentage of loans to low-income borrowers is near the percentage of families that are low-income. HNB's market share to low- and moderate-income borrowers exceed its overall market share.

Small Loans to Businesses

Refer to Table 10 in Appendix C for the facts and data used to evaluate the borrower distribution of the Bank's origination/purchase of small loans to businesses.

The distribution of small loans to businesses is adequate. HNB originated 56% of its small loans to small businesses compared to 84% of all small businesses in the AA. No revenue information was available for 18% of the small loans to businesses. Management stated this volume is attributed primarily to indirect business automobile lending in which the bank does not rely on income in making its credit decision. The bank's market share equals its overall market share.

The distribution by size of loan shows that a large majority (82%) of loan originations during the evaluation period were \$100,000 or less which substantially meets the percentage of small businesses in the assessment area.

Small Loans to Farms

Borrower distribution analysis of small loans to farms is not meaningful. Farm lending is not a primary loan product for HNB. HNB originated only one small loan to a farm during the evaluation period.

Community Development Lending

Refer to Table 1 in Appendix C for the facts and data used to evaluate HNB's level of community development (CD) lending.

CD lending had a neutral impact on the Lending Test rating. HNB has made an adequate level of community development loans.

During the evaluation period, HNB originated 14 CD loans totaling \$342 thousand in the AA.

HNB participates in a multi-bank Community Development Corporation (CDC) and was a founding member bank of this CDC, which was formed in 1999. The CDC is designed to meet the housing and related needs of low- and moderate-income individuals and families of Montgomery and Bucks Counties. Loan commitments from all participating banks total \$4.1 million. HNB's portion of this legally binding commitment is \$500 thousand (12%). During the evaluation period, 6 loans have been originated with HNB's proportionate share totaling \$316 thousand.

HNB is one of seven participating banks in a county micro loan fund organized in June 2000. Each bank has committed to make available \$50 thousand for one year from the start of the fund. The micro loan fund provides very small businesses, which may not have access to credit through traditional credit providers, the ability to obtain small dollar

loans under reasonable terms. Additionally, many of these businesses are start-up operations or expanding and provide permanent job creation for low- and moderate-income individuals. Since August 2000, HNB has participated in 8 loans, with its participation totaling \$26 thousand.

Product Innovation and Flexibility

Product innovation and flexibility had a neutral impact on the Lending Test conclusion for the AA.

HNB continues to offer a proprietary Community Development Plan (CDP) mortgage product with flexible underwriting guidelines targeted to low- and moderate-income individuals meeting the HUD guidelines. During the evaluation period, HNB originated 24 CDP loans totaling \$1.9 million. HNB has also originated 6 mortgage loans totaling \$493 thousand under the affordable gold mortgage programs offered through Freddie Mac. These programs offer low down payment options to consumers.

INVESTMENT TEST

Conclusions for Areas Receiving Full-Scope Reviews

HNB's performance under the Investment Test is rated "High Satisfactory" based on the limited types of qualified investment opportunities and strong competition for these types of investments in the assessment area. HNB's performance in the AA is good.

Refer to Table 12 in Appendix C for the facts and data used to evaluate the Bank's level of qualified investments.

Overall investment opportunities in the assessment area are available, but limited. The majority of investment opportunities in the AA are grants and donations to many non-profit organizations that serve housing and related needs, and many other services for low- and moderate-income individuals and families. Other investment opportunities such as housing bonds are available on a statewide basis, but do not necessarily target communities within the bank's AA.

Current period investments, which total \$6.077 million, exhibit good responsiveness to the primary needs in the assessment area. Community contacts and internal research indicate that affordable housing is needed. During the evaluation period, the bank purchased 4 government agency sponsored mortgage backed securities (MBS) totaling \$6 million backed by home mortgage loans to low- and moderate-income individuals that reside within a broader geographic area in eastern Pennsylvania that includes the bank's assessment area. Approximately 20% of the loans in the total MBS securities are directly from the AA.

HNB provided a total of 92 qualified grants totaling \$77 thousand to 39 community organizations within the AA. Of these totals, 22 were to affordable housing organizations, 68 were to organizations providing CD services benefiting low- and moderate-income individuals, and 2 were for small business/economic development.

SERVICE TEST

Conclusions for Areas Receiving Full-Scope Reviews

The Bank's performance under the Service Test is rated "High Satisfactory." HNB's performance in the AA is good.

Retail Banking Services

Refer to Table 13 in Appendix C for the facts and data used to evaluate the distribution of HNB's branch delivery system and branch openings and closings.

HNB's service delivery systems are accessible to geographies and individuals of different

income levels in its AA based on close proximity of its branches (less than 5 miles/5-10 minutes driving time) to moderate-income geographies.

HNB operates 23 branches, 17 are located in Montgomery County, 5 are in Bucks County, and 1 is in Chester County. Three of the branches are located within retirement communities and have limited access to residents and employees of those communities.

HNB does not have any branches in moderate-income geographies, 3% (30,300) of the more than 1 million total population in the AA reside in the moderate-income geographies. There are no low-income geographies in the AA.

As noted earlier, the moderate-income geographies are located in Pottstown and Norristown. These areas are heavily banked with 33 and 24 branches of other financial institutions respectively, minimizing the opportunity to serve the residents of those communities. HNB serves these areas through its three branches that are located in close proximity to Pottstown and one office in Norristown, which is adjacent to the moderate-income geographies in Norristown. Additionally, the branch network of its affiliate SNB headquartered in Pottstown provides banking services in HNB's AA, including two of the moderate-income geographies.

Changes in branch locations have not adversely affected the accessibility of its service delivery systems. During the evaluation period, HNB opened 2 new branches. One branch was opened in a middle-income geography. One branch was also opened in a retirement community in an upper-income geography. There were no branch closings.

HNB's hours and services do not materially vary within the AA. Banking hours and services provided Monday through Friday are supplemented by Saturday hours at most branches, including those in close proximity to the moderate-income geographies. Additionally, branch managers conduct on-site business development calls to businesses throughout the AA, including those located in the moderate-income geographies.

HNB offers alternative delivery systems including ATMs and Internet banking. We did not place significant weight on these alternative delivery systems when determining our conclusion since management has no method to determine how well these systems benefit low- and moderate-income geographies or individuals.

The bank offers a "Thrifty Checking" product targeted to the needs of the low- and moderate-income population. The account features include no minimum balance and a low monthly service charge. During the evaluation period there were 1,215 accounts opened with the current balances totaling \$895 thousand.

Community Development Services

HNB provides a good level of CD services within its AA. Several bank officers, including senior level officers, and numerous employees participate in community development services that benefit twelve community organizations. The following CD services were

provided during the evaluation period.

HNB was one of the founding member banks of the Community Lenders Community Development Corporation (CLCDC). The bank's compliance officer serves on the board of directors of the CLCDC and is also a member of the finance committee. Also, a senior vice president of the bank serves on the loan committee. The CLCDC is dedicated to affordable housing and community revitalization and addressing the needs of low- and moderate-income people throughout Bucks and Montgomery Counties.

The bank's compliance officer serves on a fundraising committee that benefits different community development organizations each year. Past recipients have included Indian Valley Housing Corporation and Laurel House. These organizations are involved in providing transitional housing and/or safe shelter for abused women and their children.

HNB is a participating bank in the Upper Bucks County Micro Loan Fund, which was formed in June 2000. A senior vice president serves on the loan committee of the Fund. The Fund makes small business loans between \$5,000 and \$30,000 to small existing and start-up businesses unable to obtain financing through traditional channels. Many of these loans help the businesses to expand and create permanent jobs for low- and moderate-income individuals.

The bank is member of the Montgomery County Partners for Home Ownership. The organization is dedicated to increasing the awareness of the low- and moderate-income population of the availability of loan, grant, and counseling programs. The partnership organizes a homebuyer fair in which the bank participates. A vice president of the mortgage department is an instructor in the credit workshop held at the fair.

A senior vice president has served as a director of ASSETS, an organization that provides business and job training and mentoring services to low- and moderate-income individuals in central Montgomery County. He continues to be involved in the organization's entrepreneurial training program by conducting presentations on new business banking and financing matters.

An employee serves on the board of the Indian Valley Housing Corporation (IVHC), an organization serving the housing needs of low- and moderate-income persons and households. IVHC provides transitional housing and emergency shelter for homeless persons, homeownership counseling, and information about community housing needs.

A business development officer of the bank serves as financial director and on the board of directors of Child, Home and Community, an organization dedicated to child care and prenatal/parenting education for adolescents, who are primarily low- and moderate-income.

An employee of the bank serves on the board of Inter-Faith of Ambler, a non-profit organization whose mission is to prevent and alleviate homelessness in central Montgomery County. There are several programs under the umbrella organization.

An employee serves on the board of Ambler Supportive Housing (part of Inter-Faith of Ambler) which supports Hope Gardens, a transitional housing facility.

An employee serves on the board of Bucks County Children, Inc., an organization that raises funds for the benefit of children under the care of Bucks County Children and Youth Social Services, who are primarily low- and moderate-income.

An employee provides fundraising assistance to Community Housing Services (CHS). CHS provides counseling, transitional housing, and assists in securing permanent housing for low- and moderate-income individuals in Montgomery County.

Appendix A: Scope of Examination

The following table identifies the time period covered in this evaluation, affiliate activities that were reviewed, and loan products considered. The table also reflects the metropolitan and nonmetropolitan areas that received comprehensive examination review (designated by the term "Full-Scope" and those that received a less comprehensive review (designated by the term "Limited-Scope").

Time Period Reviewed	Lending Test: January 1, 1999 to December 31, 2000 Investment Test: February 17, 1999 to March 12, 2001 Service Test: February 17, 1999 to March 12, 2001	
Financial Institution	Products Reviewed	
Harleysville National Bank & Trust Company (HNB) Harleysville, Pennsylvania	Home mortgage, small loans to businesses, community development loans and qualified investments.	
List of Assessment Areas and Type of Examination		
Assessment Area	Type of Exam	Other Information
Pennsylvania side of the Philadelphia multistate PMSA #6160 includes portions of Montgomery, Bucks, and Chester Counties.	Full-scope	

Appendix B: Market Profiles for Full-Scope Areas

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Market Profiles for Areas Receiving Full-Scope Reviews

Philadelphia PMS #6160.....	B-2
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Philadelphia PMSA #6160 (Portions of Montgomery, Bucks, and Chester Counties)

Demographic Information for Full-Scope Area: Philadelphia PMSA #6160 (Portions of Montgomery, Bucks, and Chester Counties)						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	277	0	3	53	43	1
Population by Geography	1,010,142	0	3	52	45	< 1
Owner-Occupied Housing by Geography	269,265	0	2	49	49	0
Businesses by Geography	51,520	0	3	49	48	0
Farms by Geography	1,658	0	1	50	49	0
Family Distribution by Income Level	272,562	11	15	25	49	0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	70,972	0	6	64	30	0
Median Family Income	= \$41,908	Median Housing Value				= \$145,251
HUD Adjusted Median Family Income for 2000	= \$57,800	Unemployment Rates (Jan 2001):				
Households Below the Poverty Level	= 3.7%	Montgomery County				= 3.2%
		Bucks County				= 3.7%
		Chester County				= 2.7%

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 1990 U.S. Census, 2000 HUD updated MFI, and Bureau of Labor Statistics.

Description of Assessment Area

HNB has defined one assessment area that includes portions of Montgomery, Bucks, and Chester Counties within the Pennsylvania part of the Philadelphia PMSA #6160. The AA comprises 277 census tracts within the Philadelphia-Wilmington-Atlantic City CMSA. The AA complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income census tracts. A portion of HNB's assessment area in western Montgomery County, which includes 3 moderate-income geographies in Pottstown, overlaps SNB's assessment area, based on branch locations of the two banks and discussion with bank management.

HNB operates in a very competitive financial services market with intense competition from mortgage companies, large regional banks, thrifts, community banks, credit unions, and finance companies. In addition to the regional banks and thrifts, major competitors include Union National Bank of Souderton, National Penn Bank, Quakertown National Bank, and Harleysville Savings Bank.

The bank's AA encompasses a diverse economic base including a mixture of service, small and mid-sized retail related businesses, and light manufacturing. Leading industries include pharmaceuticals, health care, electronics, and insurance. The local economy is strong as evidenced by the low unemployment rates in each county.

The AA contains no low-income tracts and 9 moderate-income census tracts which are centered in Norristown, Montgomery County (4 tracts) and Pottstown, Montgomery County (3 tracts). There is one moderate tract in each of the townships of Warminster and Bristol, Bucks County. Based on 1990 census data, HNB's AA has a population slightly exceeding one million persons. As indicated in the table above, 3% of the AA population resides in the moderate-income tracts.

The 2000 updated HUD median family income is \$57,800. Of the 384,111 total housing units, 70% are owner-occupied and 26% are rental-occupied. The average age of housing units in the AA is 36 years and the average cost of housing is \$145,251. According to the 2000-2004 Montgomery County Department of Housing and Urban Development Consolidated Plan, affordability is a leading problem for homeownership. It is estimated that a family would require an annual income of \$60,000 to make homeownership affordable. Affordable homes are concentrated in small older boroughs and western Montgomery County.

We conducted a community contact with an official of a county department of housing and community development within the AA. The official indicated that affordable housing is a primary need of the area. Newer homes being developed in the area cost upwards of \$200,000 making it difficult for low- and moderate-income individuals to purchase a home. Also, home improvement loans are needed in the older boroughs, where a high portion of the elderly and handicapped population resides. Investment opportunities in the AA are very limited. A discussion of the opportunities for qualified investments in the AA is provided in the Investment Test section.

We reviewed 8 community contacts conducted by regulatory agencies during the prior two years. These contacts included a county redevelopment authority and six groups involved with housing needs. These contacts also raised the issue of housing affordability. Small business loans, especially micro loans are also an identified need.

Appendix C: Tables of Performance Data

Content of Standardized Tables

References to the “bank” include activities of any affiliates that the bank provided for consideration (refer to appendix A: Scope of the Examination). For purposes of reviewing the lending test tables, the following are applicable: purchased loans are treated as originations/purchases. Market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area.

The following is a listing and brief description of the tables:

- Table 1. Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.
- Table 2. Geographic Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 3. Geographic Distribution of Home Improvement Loans** - See Table 2.
- Table 4. Geographic Distribution of Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Small Loans to Businesses** - The percentage distribution of the number of small loans (less than or equal to \$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.
- Table 6. Geographic Distribution of Small Loans to Farms** - The percentage distribution of the number of small loans (less than or equal to \$500,000) to farms originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market share information based on the most recent aggregate market data available.

- Table 7. Borrower Distribution of Home Purchase Loans** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 8. Borrower Distribution of Home Improvement Loans** - See Table 7.
- Table 9. Borrower Distribution of Refinance Loans** - See Table 7.
- Table 10. Borrower Distribution of Small Loans to Businesses** - Compares the percentage distribution of the number of small loans (less than or equal to \$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.
- Table 11. Borrower Distribution of Small Loans to Farms** - Compares the percentage distribution of the number of small loans (less than or equal to \$500,000) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. In addition, the table presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.
- Table 12. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/AA. The table separately presents investments made during prior evaluation periods that are still outstanding and investments made during the current evaluation period. Prior-period investments are reflected at their book value as of the end of the evaluation period. Current period investments are reflected at their original investment amount even if that amount is greater than the current book value of the investment. The table also presents the number and dollar amount of unfunded qualified investment commitments. In order to be included, an unfunded commitment must be legally binding and tracked and recorded by the bank's financial

reporting system.

Table 13. Distribution of Branch Delivery System and Branch Openings/Closings -
Compares the percentage distribution of the number of the bank's branches in low-, moderate-, middle-, and upper-income geographies to the percentage of the population within each geography in each MSA/AA. The table also presents data on branch openings and closings in each MSA/AA.

Table 14. Geographic and Borrower Distribution of Consumer Loans (OPTIONAL)
- For geographic distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of households within each geography. For borrower distribution, the table compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle-, and upper-income borrowers to the percentage of households by income level in each MSA/assessment area.

Table 1. Lending Volume

LENDING VOLUME		State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000						
MSA/Assessment Area:	% of Rated Area Loans (#) in MSA/AA*	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MSA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
Full-Review:												
Philadelphia PMSA 6160	100	2,071	103,031	1,109	86,033	1	18	14	342	3,195	189,424	100

(*) Rated area refers to either the state or multistate MSA rating area.

(**) The evaluation period for Community Development Loans is February 17, 1999 to March 12, 2001.

(***) Deposit data as of June 30, 2000. Rated area refers to either the state or multistate MSA rating area.

Table 2. Geographic Distribution of Home Purchase Loans

Geographic Distribution: HOME PURCHASE		State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000									
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	398	100	0	0	2	2	49	55	49	42	0.8	0	2.3	1.0	0.5

(*) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 3. Geographic Distribution of Home Improvement Loans

Geographic Distribution: HOME IMPROVEMENT		State: Pennsylvania					Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000								
MSA/Assessment Area:	Total Home Improvement Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	1,185	100	0	0	2	1	49.30	51	49	48	9.4	0	4.7	10.0	8.9

(*) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 4. Geographic Distribution of Home Mortgage Refinance Loans

Geographic Distribution: HOME MORTGAGE REFINANCE		State: Pennsylvania					Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000								
MSA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	% Owner Occ Units**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	488	100	0	0	2	2	49	54	49	1.8	1.8	0	2.4	2.0	1.5

(*) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

(**) Percentage of Owner-Occupied Units is the number of owner-occupied housing units in a particular geography divided by the number of owner-occupied housing units in the area based on 1990 Census information.

(***) Based on 1999 Aggregate HMDA Data only.

Table 5. Geographic Distribution of Small Loans to Businesses

Geographic Distribution: SMALL LOANS TO BUSINESSES			State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000								
MSA/Assessment Area:	Total Small Loans To Businesses		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% of Businesses **	% BANK Loans	% of Businesses **	% BANK Loans	% of Businesses **	% BANK Loans	% of Businesses **	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	1,109	100	0	0	3	1	49	54	48	45	2.6	0	1.2	3.4	2.1

(*) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

(**) Source of Data-Dunn and Bradstreet.

(***) Based on 1999 Aggregate Small Business Data only.

Table 6. Geographic Distribution of Small Loans to Farms

Geographic Distribution: SMALL LOANS TO FARMS			State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000								
MSA/Assessment Area:	Total Small Loans To Farms		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Market Share (%) by Geography ***				
	#	% of Total*	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	% of Farms**	% BANK Loans	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	1	100	0	0	1	0	50	100	49	0	0	0	0	0	0

(*) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

(**) Source of Data-Dunn and Bradstreet.

(***) Based on 1999 Aggregate Small Farm Data only.

Table 7. Borrower Distribution of Home Purchase Loans

Borrower Distribution: HOME PURCHASE		State: Pennsylvania					Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000									
MSA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****					
	#	% of Total*	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Philadelphia PMSA 6160	398	100	11	16	15	29	25	22	49	32	0.8	3.4	1.5	0.7	0.6	

(*) Home purchase loans originated and purchased in the MSA/AA as a percentage of all home purchase loans originated and purchased in the rated area.

(**) Percentage of Families is based on 1990 Census information.

(***) As a percentage of loans with borrower income information available. No information was available for 1% of loans originated and purchased by the bank.

(****) Based on 1999 Aggregate HMDA Data only.

Table 8. Borrower Distribution of Home Improvement Loans

Borrower Distribution: HOME IMPROVEMENT		State: Pennsylvania					Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000									
MSA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****					
	#	% of Total*	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	Overall	Low	Mod	Mid	Upp	
Full-Review:																
Philadelphia PMSA 6160	1,185	100	11	11	15	18	25	26	49	44	9.4	16.6	10.8	10.5	7.7	

(*) Home improvement loans originated and purchased in the MSA/AA as a percentage of all home improvement loans originated and purchased in the rated area.

(**) Percentage of Families is based on 1990 Census information.

(***) As a percentage of loans with borrower income information available. No information was available for 1% of loans originated and purchased by the bank.

(****) Based on 1999 Aggregate HMDA Data only.

Table 9. Borrower Distribution of Home Mortgage Refinance Loans

Borrower Distribution: HOME MORTGAGE REFINANCE			State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000								
MSA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share (%) by Borrower Income****				
	#	% of Total*	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	% of Families**	% BANK Loans***	Overall	Low	Mod	Mid	Upp
Full-Review:															
Philadelphia PMSA 6160	488	100	11	8	15	20	25	30	49	42	1.8	2.7	2.7	2.6	1.9

(*) Home mortgage refinance loans originated and purchased in the MSA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

(**) Percentage of Families is based on 1990 Census information.

(***) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated and purchased by the bank.

(****) Based on 1999 Aggregate HMDA Data only.

Table 10. Borrower Distribution of Small Loans to Businesses

Borrower Distribution: SMALL LOANS TO BUSINESSES			State: Pennsylvania				Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000			
	Total Small Loans to Businesses		Businesses with Revenues of \$1 million or less		Loans by Original Amount Regardless of Business Size			Market Share****		
	#	% of Total*	% of Businesses**	% BANK Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	
Full-Review:										
Philadelphia PMSA 6160	1,109	100	84	56	82	11	7	2.6	2.6	

(*) Small loans to businesses originated and purchased in the MSA/AA as a percentage of all small loans to businesses originated and purchased in the rated area.

(**) Businesses with revenues of \$1 million or less as a percentage of all businesses.

(***) Small loans to businesses with revenues of \$1 million or less as a percentage of all loans reported as small loans to businesses. No information was available for 18% of small loans to businesses originated and purchased by the bank.

(****) Based on 1999 Aggregate Small Business Data only.

Table 11. Borrower Distribution of Small Loans to Farms

Borrower Distribution: SMALL LOANS TO FARMS		State: Pennsylvania		Evaluation Period: JANUARY 1, 1999 TO DECEMBER 31, 2000					
	Total Small Loans to Farms		Farms with Revenues of \$1 million or less		Loans by Original Amount Regardless of Farm Size			Market Share****	
	#	% of Total*	% of Businesses**	% BANK Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less
Full-Review:									
Philadelphia PMSA 6160	1	100	95	100	100	0	0	0	0

(*) Small loans to farms originated and purchased in the MSA/AA as a percentage of all small loans to farms originated and purchased in the rated area.

(**) Farms with revenues of \$1 million or less as a percentage of all businesses.

(***) Small loans to farms with revenues of \$1 million or less as a percentage of all loans reported as small loans to farms. No information was available for 0% of small loans to businesses originated and purchased by the bank.

(****) Based on 1999 Aggregate Small Farm Data only.

Table 12. Qualified Investments

QUALIFIED INVESTMENTS		State: Pennsylvania		Evaluation Period: FEBRUARY 17, 1999 TO MARCH 12, 2001					
MA/Assessment Areas:	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	% of Total \$'s	#	\$ (000's)
Full-Review:									
Philadelphia PMSA 6160	0	0	96	6,077	96	6,077	100	0	0

(*) Prior Period Investments" means investments made in a previous evaluation period that are outstanding as of the examination date.

(**) Unfunded Commitments means legally binding investment commitments that are tracked and recorded by the bank's financial reporting system.

Table 13. Distribution of Branch Delivery System and Branch Openings/Closings

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS				State: Pennsylvania				Evaluation Period: FEBRUARY 17, 1999 TO MARCH 12, 2001									
MSA/Assessment Area:	Deposits	Branches						Branch Openings/Closings				Population					
	% of Rated Area Deposits in MSA/AA	# of BANK Branches	% of Rated Area Branches in MSA/AA	Location of Branches by Income of Geographies (%)				# of Branch Closings	# of Branch Openings	Net Change in Location of Branches (+ or -)				% of the Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
Full-Review:																	
Philadelphia PMSA 6160	100	23*	100	0	0	57	43	0	2	0	0	1	1	0	3	52	45

* Includes three limited access branches located in retirement communities.

