



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**August 30, 2010**

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

The First National Bank of Absecon  
Charter Number: 10823

106 New Jersey Avenue  
Absecon, NJ 08201

Office of the Comptroller of the Currency

Eastern Pennsylvania Field Office  
1150 Northbrook Drive, Suite 303  
Treose, PA 19053

**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, 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.

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

The major factors that support this rating include:

- The distribution of loans reflects reasonable penetration among borrowers of different incomes.
- A substantial majority of the bank's home mortgage loans were originated within its AA.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs.
- The geographic distribution of loans reflects a reasonable dispersion throughout its AA.
- The bank has not received any complaints about its performance in helping to meet the credit needs of its AA.

**SCOPE OF EXAMINATION**

The First National Bank of Absecon (FNBA) was evaluated under the Small Bank Community Reinvestment Act (CRA) examination procedures. Our review covered the bank's CRA performance from January 1, 2008 through June 30, 2010, as this is representative of its lending strategy since the last CRA examination. Based upon the bank's business strategy and the loans originated or purchased during the evaluation period, we determined that residential mortgage loans are the bank's primary loan product. The residential mortgage loan analysis is based upon the bank's Home Mortgage Disclosure Act-Loan Application Registers (HMDA-LAR). The HMDA-LARs were tested prior to this review and found to be reliable for the purposes of our analysis. Therefore, we used the HMDA data from January 1, 2008 through June 30, 2010 to evaluate the bank's home mortgage loan performance.

**DESCRIPTION OF INSTITUTION**

FNBA is an independently owned community bank headquartered in Absecon, New Jersey, which is about 6 miles west of Atlantic City. The bank is a full service, intrastate institution offering a standard array of traditional loan and deposit products. The bank's website at [www.fnbabsecon.com](http://www.fnbabsecon.com) provides a listing and description of all deposit and loan products offered. As of June 30, 2010, FNBA had total assets of \$153 million and tier one capital of \$13 million. FNBA is a wholly owned subsidiary of Absecon Bancorp, a one-bank holding company. Both the bank and the holding company are located in Absecon, New Jersey. FNBA has one subsidiary, Absecon Investment Corporation, which holds the bank's investment securities. There has been no merger or acquisition activity since the last CRA examination.

FNBA services eastern Atlantic County through its main office and three branches. The main office and all 3 branches are equipped with drive-in facilities and are open from 8:30am until 6:00pm each weekday, and on Saturdays from 8:30am until 1:00pm. The bank currently does not maintain automated teller machines (ATMs) and does not intend to install ATMs in any of its branches. The AA is saturated with competitive ATMs in banks, financial institutions, food stores, retail stores and convenience stores. Therefore, senior management concludes that fee income would not be sufficient to support the installation and operational expense of ATMs. FNBA did not open or close any branches during the evaluation period.

As of June 30, 2010, FNBA reported \$54 million in net loans, \$139 million in total deposits, and Tier One capital of \$13 million. The net loans and leases to total assets ratio was 35 percent. The total loan portfolio of \$139 million is 97 percent real estate, 2 percent commercial & industrial loans, and 1 percent individual loans

<b>Loan Portfolio Summary by Loan Product June 30, 2010</b>	
<b>Loan Category</b>	<b>% of Gross Loans and Leases</b>
Home Mortgage Loans	83.7%
Commercial RE Loans	12.6%
Commercial & Industrial	1.6%
Construction and Land Development	1.0%
Consumer Loans	0.5%
Other Loans	0.6%

Numerous national, state, and savings banks, and branches of several regional institutions fiercely compete for lending and deposit customers. According to the June 30, 2009 Federal Depository Institution Corporation's (FDIC) Deposit Market Share Report, FNBA ranked 10<sup>th</sup> out of 16 institutions in Atlantic County with a 2.94 percent deposit market share. The top five institutions in Atlantic County command an overall deposit market share of 66.42 percent and include: TD Bank (23% market share), Bank of America (14% market share), Sun National Bank (11% market share), Wachovia Bank (10% market share), and Cape Bank (9% market share).

According to the 2008 market share data for all home mortgage lending, the bank ranked 16<sup>th</sup> out of 241 lenders with a 1.38 percent market share by number of loans originated within its AA. The top five ranked institutions within the AA are all very large national banks and mortgage companies (i.e. – Countrywide, Wells Fargo, JPMorgan Chase, etc.) and capture almost 44 percent of the market with market shares ranging from 3 percent to 18 percent.

There are no known legal, financial or other factors impeding FNBA's ability to help meet the needs of its community. FNBA was rated "Satisfactory" at the last CRA examination using small bank procedures dated January 25, 2005.

## DESCRIPTION OF ASSESSMENT AREA

FNBA has defined 29 census tracts in the eastern portion of Atlantic County, NJ as its assessment area (AA). Atlantic County is located in the southeastern portion of the state of New Jersey and comprises the entire Atlantic City-Hammonton, NJ Metropolitan Statistical Area (MSA) #12100. The bank's AA complies with the regulation and does not arbitrarily exclude low- or moderate-income areas. The census tracts in the bank's AA are contiguous in geography and are surrounded on three sides by natural boundaries. The northern portion of the AA ends at The Great Egg Bay and Mullica River. The eastern portion of the AA ends at the Intra-Coastal Water Way and the Atlantic Ocean, while the AA's southern boundary is the Egg Harbor River and Egg Harbor Bay. The western portion of the AA incorporates the Naval Air Transportation Experimental Center, Atlantic City International Airport, and rural portions of the New Jersey Pinelands.

Demographic Information for Absecon AA						
Demographic Characteristics	#	% Low	% Moderate	% Middle	% Upper	% NA*
Geographies (Census Tracts)	29	0.00	10.34	55.17	31.03	3.45
Population by Geography	120,678	0.00	13.53	52.65	32.14	1.68
Owner-Occupied Housing by Geography	32,691	0.00	9.86	51.90	38.18	0.07
Businesses by Geography	9,711	0.00	12.38	50.70	36.89	0.04
Farms by Geography	254	0.00	6.30	58.27	35.43	0.00
Family Distribution by Income Level	30,702	15.26	17.34	24.19	43.21	0.00
Household Distribution by Income Level	43,520	16.88	15.98	20.17	46.98	0.00
Median Family Income	= \$51,769	Median Housing Value		= \$115,143		
HUD Adjusted Median Family Income for 2009	= \$69,200	Unemployment Rate**		= 12.3%		
Households Below the Poverty Level	= 8%					

Source: 2000 U.S. Census

(\*) The NA category consists of geographies that have not been assigned an income classification.

(\*\*) Atlantic County, NJ Unemployment Rate – July 2010 – Not seasonally adjusted.

The bank's AA is comprised of 3 moderate-income tracts (10%), 16 middle-income tracts (55%), 9 upper-income tracts (31%), and one tract that has not been assigned an income classification (4%). There are no low-income tracts contained within the AA. The AA is not considered a distressed or underserved area.

The 2000 U.S. Census data reported the total population of the AA at 120,678. This population was comprised of 43,520 households and 30,702 families. There are a total of 48,904 housing units, of which, 81 percent were one to four family units and 24 percent were rental units. Owner-occupied housing is 67 percent, rental occupied units

were 22 percent, and vacant housing was 6 percent. The median housing cost is \$115,143.

The median family income was \$51,769 and the 2009 HUD updated median family income is \$69,200. Approximately 8 percent of households are below poverty. Approximately 15 percent of the families in the AA are low-income, 18 percent are moderate-income, 24 percent are middle-income, and 43 percent are upper-income.

The current local economy for Atlantic County, New Jersey can be described as poor due to the prolonged national recession and housing market downturn. Atlantic County's economy is primarily driven by casinos and tourism. The largest employers in Atlantic County are Atlantic City Hilton Casino Resort, Bally's Atlantic City, Borgata Casino Hotel & Spa, and Caesars. The unemployment rate not seasonally adjusted, as of July 2010, for Atlantic County, NJ is 12.3 percent, which is up slightly from 12.0 percent in July 2009, and up significantly from 6.85 percent in July 2008. Atlantic County's unemployment rate of 12.3 percent is higher than the current national unemployment rate of 9.7 percent.

Atlantic County, NJ is a highly competitive market, as FNBA faces competition from larger national and regional institutions as well as several mortgage/finance companies. The bank's primary competitors include TD Bank NA, Bank of America NA, Cape Bank, Countrywide Bank FSB, and Wells Fargo Bank NA.

In conducting the assessment of the bank's performance, we reviewed several interviews of local economic development organizations recently conducted by the OCC. The organizations indicated there was a need for more small business lending and affordable housing for low- and moderate-income individuals and families throughout FNBA's AA. The organizations also consistently mentioned the need for additional financing to small and start-up businesses as well as a greater effort to help out troubled home-owners.

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

FNBA's performance under the lending test is satisfactory. The borrower distribution portion of the test received the majority of the weight. FNBA was found to have reasonable penetration among borrowers of different income levels. FNBA's geographical distribution of loans was also reasonable, but did not receive a lot of weight because the bank's AA only contains three moderate-income census tracts and no low-income tracts. For both of these analyses, we placed more weight on home improvement and home refinance lending and less weight on home purchase lending as home purchase lending accounted for only 10 percent (by number) of all home mortgage loan originations within the AA. While, home improvement lending made up 52 percent (by number) and home refinance lending made up 38 percent (by number) of all home mortgage loan originations.

All criteria of the lending test are documented below:

### Loan-to-Deposit Ratio (LTD)

FNBA's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. The bank's quarterly average net loan-to-deposit ratio over the 22 quarters since the last CRA examination was 41.94 percent. During this time period, the ratio ranged from a quarterly low of 34.09 percent to a quarterly high of 47.73 percent.

The quarterly average net loan-to-deposit ratio for a custom peer group of 14 similarly sized commercial banks in southern New Jersey was 71.83 percent over the same 22 quarters. FNBA ranked 11<sup>th</sup> out of the 14 banks that comprised the peer group. While the bank's quarterly average net loan-to-deposit ratio is significantly lower than the custom peer group, it is reasonable when taking into consideration the bank's lending market share and the fierce competition for loans.

### Lending in Assessment Area

A substantial majority of FNBA's home mortgage loans were made within its AA. The following table details the bank's lending within the AA by number and dollar amount of loans. Eighty-five percent of home mortgage loans (by number) originated in were made within FNBA's AA, while sixty-nine percent of home mortgage loans (by dollar amount) originated were made within FNBA's AA.

Table 1 - Lending in Absecon AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	16	88.89	2	11.11	18	2,606	51.44	2,460	48.56	5,066
Home Refinance	63	85.14	11	14.86	74	7,335	75.46	2,386	25.54	9,721
Home Improvement	86	85.15	15	14.85	101	3,633	73.36	1,319	26.64	4,952
Totals	165	85.49	28	14.51	193	13,574	68.77	6,165	31.23	19,739

Source: HMDA loan data 1/1/2008-6/30/2010

### Lending to Borrowers of Different Incomes

The distribution of loans within FNBA's AA reflects reasonable penetration among borrowers of different income levels.

In our analysis, we considered how affordable it was for low-income individuals to purchase a home and we considered the poverty rate. The average median housing value in FNBA's AA was \$115,143. The 2009 HUD updated median family income was \$69,200. The maximum income which is considered low-income is \$34,600.

Additionally, 8 percent of households are below the poverty level and earn even less than \$34,600. Therefore, the opportunities for home purchase and home refinance

lending to low-income borrowers would be limited. As a result, we placed more emphasis on the bank’s lending to moderate-income borrowers.

The bank made no home purchase loans to low-income borrowers during the evaluation period. As mentioned previously, it is very difficult for a low-income borrower to qualify for a home purchase loan and the competition for such loans is intense. Additionally, FNBA only originated 16 home purchase loans during the evaluation period as they tend to focus more on home improvement and home refinance lending. Meanwhile, the percentage of home purchase loans originated to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

The percentage of home improvement loans originated to low-income borrowers is somewhat lower than the percentage of low-income families in the AA. However, FNBA’s market share of home improvement loans to low-income borrowers exceeds its overall market share. Meanwhile, the percentage of home improvement loans originated to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

The percentage of home refinance loans originated to low-income borrowers is lower than the percentage of low-income families in the AA. However, FNBA’s market share of home refinance loans to low-income borrowers is near to its overall market share. Meanwhile, the percentage of home refinance loans originated to moderate-income borrowers is near to the percentage of moderate-income families in the AA.

The following, Table 2, shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2008 through June 30, 2010 as compared to the percent of families in each income category.

<b>Table 2 - Borrower Distribution of Residential Real Estate Loans in Absecon AA</b>								
Borrower Income Level	Low		Moderate		Middle		Upper	
	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	15.26	0.00	17.34	13.33	24.19	40.00	43.21	46.67
Home Improvement	15.26	8.33	17.34	16.67	24.19	28.57	43.21	46.43
Home Refinance	15.26	3.33	17.34	13.33	24.19	20.00	43.21	63.33

*Source: HMDA data for 1/1/2008-6/30/2010 and HUD-updated 2000 U.S. Census data. Income was not available for 6.3% of home purchase loans originated, 2.3% of home improvement loans originated, and 4.8% of home refinance loans originated.*

### **Geographic Distribution of Loans**

The geographic distribution of home mortgage loans reflects a reasonable dispersion throughout FNBA’s AA; however, this portion of the test was not given much weight as the AA contains no low-income census tracts and only 3 moderate-income census

tracts. There were no conspicuous gaps identified within FNBA's AA.

The bank made no home purchase loans within moderate-income geographies during the evaluation period. Almost 30 percent of all families living in the 3 moderate-income geographies are low-income and 15 percent of households are below the poverty level; thus making it difficult for these individuals to qualify for a home purchase loan. Therefore, the opportunity to originate home purchase loans in the 3 moderate-income geographies is limited.

The percentage of home improvement loans made in moderate-income geographies is somewhat lower than the percentage of owner-occupied housing units in these geographies; however, FNBA's market share in moderate-income geographies is about equal to its overall market share.

The percentage of home refinance loans made in moderate-income geographies is lower than the percentage of owner-occupied housing units in these geographies. As mentioned above, almost 30 percent of all families living in the 3 moderate-income geographies are low-income and 15 percent of households are below the poverty level; therefore, making it difficult for these individuals to qualify for a home refinance loan.

The following, Table 3, details the bank's performance as compared to the percentage of owner-occupied housing units in each census tract income level for the period of January 1, 2008 through June 30, 2010.

<b>Table 3 - Geographic Distribution of Residential Real Estate Loans in Absecon AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	N/A	N/A	9.86	0.00	51.93	12.50	38.20	87.50
Home Improvement	N/A	N/A	9.86	5.88	51.93	35.29	38.20	58.82
Home Refinance	N/A	N/A	9.86	3.17	51.93	19.05	38.20	77.78

Source: HMDA data for 1/1/2008-6/30/2010 and 2000 U.S. Census data

### Responses to Complaints

FNBA did not receive any CRA related complaints during this evaluation period.



## **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.