

Bank

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

PUBLIC DISCLOSURE

October 25, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bernville Bank, N.A.
Charter Number: 17721**

**201 North Main Street
Bernville, Pennsylvania 19506**

**Office of the Comptroller of the Currency
Northern 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 **Bernville Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **October 25, 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:

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

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 (CT) - 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 an 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 CTs. 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 Bernville Bank, N.A. (BBNA) is a \$107 million independent banking institution, founded in 1907 and located in southeastern Pennsylvania. The bank's headquarters and main office are in Bernville, Berks County, Pennsylvania. BBNA is the wholly-owned and sole subsidiary of Community Independent Bank, Inc.

BBNA is a full-service retail bank. The main office and its three branch offices are situated in Berks County. Of the four locations, three branches are in middle-income CTs and one branch is in an upper-income CT. Three of the offices have automated teller machines (ATMs) and all offer drive-through windows and extended business hours. These extended hours include Thursday and Friday evenings and Saturday mornings. The bank also maintains a remote ATM near the main office. A variety of loan and deposit products are available to consumers and businesses, including free checking to consumers with no minimum balance requirements and no minimum opening deposit.

Primary loan products include home loan refinancing and small business loans. The loan portfolio represents 79% of total assets. A breakdown of the portfolio as of June 30, 1999 is as follows: 58% residential mortgages, 35% commercial and commercial real estate loans, and 6% consumer installment loans. Agricultural lending is minimal at 1%. BBNA 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, BBNA's market share of all deposits held by FDIC-insured institutions operating in Berks County was 1.97%.

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 24, 1997, the institution was rated "satisfactory." BBNA has since opened a branch office in November of 1997.

DESCRIPTION OF ASSESSMENT AREA

BBNA has one assessment area (AA) in Pennsylvania. The AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA contains 76 CTs in Berks County, in the Reading MSA. The population of the AA is 336,523. The income designations for the area's CTs are shown in the following table. All of the low- and moderate-income CTs are located in the City of Reading.

ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts	% of Total Tracts
Low	4	5
Moderate	15	20
Middle	48	63
Upper	8	11
Not Available*	1	1
Total	76	100

*As of the 1990 U.S. Census, this area was undeveloped.

Eighty-six percent of the housing in the AA comprises one- to four-family units, 9% are multifamily units, 4% are mobile homes, and 1% are condominiums. Of the total housing units in the AA, 70% are owner-occupied, 25% are renter-occupied, and 5% are vacant. The average cost of housing in the AA is \$78,993 and the average year homes were built is 1955.

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. Considering the average cost of housing, it is financially difficult for low-income families to afford average homes in the area. Additionally, 3% of all of the households in the AA have incomes below the poverty level and 16% of the families in the AA are considered low-income.

The August 1999 unemployment rate for the state of Pennsylvania was 4.3% and the unemployment rate in Berks County was 3.9%.

According to 1999 business demographics, there are 13,656 businesses in the AA, of which 841 are farms. Small businesses represent 88% of the 10,441 businesses reporting revenues. Approximately 80% of the businesses reported having less than ten employees. The primary industries in this AA are services at 38%, retail trade at 21%, and construction at 11% 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 municipality, reviewing recent contacts with a local chamber of commerce and a social services organization, and through management discussion. The local municipality contact stated that, in the rural areas of the county, the economy was growing moderately with very limited opportunities for financial institutions to participate in any development projects. They believe that all local financial institutions were supportive of community activities and projects.

The chamber contact indicated that the economy was doing well, unemployment was very low, and most credit needs were being met by local financial institutions. However, they perceive 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. They believe that banks need to offer more flexible lending programs to low- and moderate-income individuals so that these individuals would be eligible to purchase decent single-family housing units.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

SCOPE OF EXAMINATION

This examination covered the period from January 1, 1997 to October 25, 1999. Our analysis of HMDA reportable loan products covered the period January 1, 1997 to September 30, 1999. Refinances were selected as a primary loan product for review because of the origination volume. During the period covered by this examination, 50% of the number of all HMDA reportable originations were refinances, 27% were purchase money mortgages, and 23% were home improvement loans.

Small business loans were also chosen as a primary loan product for review. We selected a sample of 30 business loans totaling \$3.9 million originated between January 1, 1998 and September 30, 1999 (due to data processing restrictions, 1997 data was not readily available). We selected these loans from a total population of 217 loans aggregating \$32.9 million. The small business sample represented 14% of the number and 12% of the dollar volume of loan originations during this period.

Dollar amounts in the tables within this report are in thousands (\$000s) unless otherwise indicated.

Loan to Deposit Analysis

The loan to deposit ratio exceeds the standards for satisfactory performance and is excellent given the bank's size, financial condition, and credit needs of the AA. The bank's loan to deposit ratio, averaged over the previous ten quarters since the last CRA examination, is 91.41%. This compares very favorably to the national peer (70.46%), and the local peer (81.49%). The national peer group consisted of financial institutions with similar asset sizes when compared to BBNA. The local peers were financial institutions with similar asset sizes and similar balance sheet composition when compared to BBNA.

Lending in Assessment Area

The bank's lending in the AA exceeds the standards for satisfactory performance. The majority of loans and other lending-related activities are in the bank's AA. The penetration of refinance loans in the AA is illustrated in the following chart. In addition, 25 of the 30 loans (83%) in our small business loan sample were originated inside the AA.

Refinance Loan Originations						
	1997		1998		1/1/99 - 9/30/99	
	#/%	\$/%	#/%	\$/%	#/%	\$/%
Inside AA	123/90	6,943/82	185/93	15,911/94	37/93	3,008/96
Outside AA	13/10	1,537/18	13/7	1,019/6	3/7	110/4
Total	136/100	8,480/100	198/100	16,930/100	40/100	3,118/100

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 following chart reflects disparity in the low-income category. However, as noted earlier, a low-income family has earnings of \$24,100 or less. With housing costs averaging \$78,993, it is financially difficult for low-income families to afford average homes in the area. Additionally, 35% of all of the low-income households have income levels below the poverty level. This further explains the lower level of refinance lending to low-income individuals. A homeowner with a smaller outstanding mortgage balance is also less likely to be interest rate sensitive when interest rates fall, the primary reason for individuals to refinance their existing mortgage debt. BBNA management believes that the lower interest rates which have existed in the past few years have resulted in refinance loans being their primary HMDA product.

The table below illustrates good performance for moderate-income borrowers in 1997, 1998, and year-to-date in 1999.

Refinance Loan Originations by Level of Borrower Income in the AA							
Income Category	1997		1998		1/1/99-9/30/99		% of Families Within AA
	#/%	\$/%	#/%	\$/%	#/%	\$/%	
Low	9/7	273/4	6/3	324/2	2/5	91/3	16
Moderate	30/25	1,396/20	24/13	1,358/9	10/27	579/19	19
Middle	36/29	1,587/23	61/33	4,055/25	7/19	658/22	28
Upper	48/39	3,687/53	94/51	10,174/64	18/49	1,680/56	37
Total	123/100	6,943/100	185/100	15,911/100	37/100	3,008/100	100

BBNA has a very good record of lending to small businesses. Our sample of 25 small business loans in the AA disclosed that 80% of the loans, by number, were to businesses with revenues less than \$250 thousand. The bank's record during the evaluation period shows that it is working to meet the needs of small businesses.

Additionally, our sample disclosed that 23 of the 25 sampled loans in the AA, or 92% by number, were to small businesses (businesses with gross annual revenues less than \$1 million). This compares very favorably to the fact that 72% 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	# of Loans	%	\$ Amount	%
0 < \$100	13	52	488	18
\$100 < \$250	7	28	1,557	56
\$250 < \$500	2	8	100	3
\$500 < \$1000	1	4	18	1
More than \$1000	2	8	600	22

Total	25	100	2,763	100
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As noted below, the vast majority of the small business loans were in smaller amounts. Our sample of 25 business loans in the AA disclosed that 88% were for amounts of \$250 thousand or less. The average original loan amount for all of the loans in the sample was \$111 thousand.

Distribution of Small Business Loans by Loan Size in the AA				
Loan Size	# of Loans	%	\$ Amount	%
<= \$100	17	68	581	21
>\$100<=\$250	5	20	979	35
>\$250<=\$1,000	3	12	1,203	44
Total	25	100	2,763	100

Geographic Distribution of Loans

The geographic distribution of refinance loans meets the standards for satisfactory performance. Considering the fact that BBNA does not have any branches in the low- or moderate-income CTs, lending reflects a reasonable dispersion of loans throughout the AA. As stated previously, all of these tracts are in the City of Reading. BBNA’s closest office location to these tracts is approximately five miles. This distance and the number of competitors in the vicinity of this office limit the activity to these households. These low- and moderate-income tracts are well-served by more than 74 lenders who originate refinance loans in these areas.

In this AA, owner-occupied households are predominantly located in middle- and upper-income CTs, where the bank has its branches. This explains the fact that most of the refinance loans are in the middle- and upper-income CTs. Also, in the low-income CTs 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, more than 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.

Geographic Distribution of Refinance Loan Originations by Census Tract Characteristic in the AA							
Income Category	1997		1998		1/1/99-9/30/99		% of Owner Occupied Households
	#/%	\$/%	#/%	\$/%	#/%	\$/%	
Low	0/0	0/0	0/0	0/0	1/3	41/2	2
Moderate	4/3	118/2	2/1	50/1	1/3	20/1	9
Middle	110/90	5,930/85	167/90	13,646/85	33/89	2,707/89	72
Upper	9/7	895/13	16/9	2,215/14	2/5	240/8	17
Total	123/100	6,943/100	185/100	15,911/100	37/100	3,008/100	100

The geographic distribution of small business loans is reasonable, particularly in the moderate-income areas. Again, without a presence in the City of Reading, it is difficult for a small community bank like BBNA to compete with the more than 37 lenders who originate small business loans in the low-income CTs. Our sample illustrates this:

Geographic Distribution of Small Business Loans in the AA					
CT	# of Loans	%	\$ Amount	%	% Businesses in each CT
Low	0	0	0	0	3
Moderate	4	16	475	17	10
Middle	18	72	1,460	53	71
Upper	3	12	828	30	16
Total	25	100	2,763	100	100

Response to Complaints

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

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 single female and single male borrowers.