



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

January 25, 2005

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The First National Bank of Absecon
Charter Number 10823**

**106 New Jersey Avenue
Absecon, NJ 08201**

**Comptroller of the Currency
Eastern Pennsylvania Field Office
3325 Street Road, Suite 120
Bensalem, PA 19020**

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:

The First National Bank of Absecon is rated Satisfactory.

The primary factors supporting the bank's overall rating include:

- The average loan to deposit ratio during the evaluation period is materially low. However, there are strong mitigating conditions, which make it reasonable.
- The origination of loans within the bank's assessment area (AA) exceeds the standards for satisfactory performance.
- The distribution of loans to borrowers with low-to-moderate income levels is reasonable, and meets the standards for satisfactory performance.
- The geographic distribution of home mortgage loans and small business loans is not applicable in this examination since the bank has only a few demographically distinct geographies within its AA.

DESCRIPTION OF INSTITUTION

The First National Bank of Absecon (FNBA) is a \$151 million independent bank located in Atlantic County, New Jersey approximately 6 miles west of Atlantic City. The bank received its national charter on November 15, 1915. It moved to its present location at 106 New Jersey Avenue, Absecon, New Jersey in 1950. In 1970 the bank opened its first branch location on the White Horse Pike in Absecon, approximately two miles from the main office. It opened its second branch in 1971 in Northfield, New Jersey, which is 5.4 miles from the main office. Its third branch opened in 1974 and is located on Jimmie Leeds Road in Galloway Township, 5.5 miles from the main office. FNBA is the only bank that has its headquarters and all of its branches in Atlantic County.

The main office is located in the center of the small business district of the Town of Absecon. Light rail and bus service are provided by New Jersey Transit, and provide easy access to the Main Office, the White Horse Pike Branch in Absecon, and the New Road Branch in Northfield. Bus service is the only convenient mode of public transportation accessible to the Jimmie Leeds Road Branch in Galloway Township. Each location is within the Atlantic City, New Jersey Metropolitan Statistical Area (M.S.A.) 12100. No branches have opened or closed since our last examination. The bank does not currently have plans to open any new branches. FNBA's four branches offer drive-up windows, extended lobby hours, and bank by phone. Recently FNBA introduced Internet banking. The bank does not maintain automated teller machines (ATMs) and does not intend to install ATMs in their branches. The AA is saturated with competitive ATMs in banks, financial institutions, food stores, retail stores and convenience stores. Senior management concludes that fee income would not be sufficient to support the installation and operational expense of ATMs.

Due to the small size of the bank, the legal lending limit is not large enough to allow it to be a large commercial loan contender in an extremely highly competitive marketplace. FNBA struggles to remain a niche lender in its AA. It competes with large and mid-sized banks with strong branch delivery systems. It also competes with large out of state non-bank financial institutions for home mortgage and small business loans.

According to the June 30, 2004 FDIC Deposit Market Share Report, FNBA had a 3.81% market share of all deposits in Atlantic County, while Commerce Bank, NA based in Cherry Hill, NJ was ranked number one with 23% share of market and \$856 million in deposits. FNBA has no out-of-market deposits.

There are no financial or legal impediments impacting FNBA's ability to help meet its community credit needs. The evaluation period for this examination is from January 1, 2002 to December 31, 2004 for home mortgage products, and January 1, 2002 to December 31, 2004 for small business lending. FNBA's previous CRA examination was conducted as of January 24, 2000, and the bank was assigned an overall rating of Satisfactory.

DESCRIPTION OF ASSESSMENT AREA

FNBA's AA meets the requirements of the regulation and does not arbitrarily exclude low or moderate-income geographies. The AA is comprised of twenty-nine contiguous census tracts (CTs) located in the eastern corner of Atlantic County, and surrounded on three sides by natural boundaries. The Northern portion ends at The Great Egg Bay and Mullica River. The East side ends at the Intra-coastal Water Way and the Atlantic Ocean, while the boundary to the South is the Egg Harbor River and Egg Harbor Bay. The western portion of the AA incorporates the Naval Air Transportation Experimental Center (N.A.F.E.C.), and rural portions of the New Jersey Pinelands. N.A.F.E.C. is a large body of federal land that is home to the US Coast Guard, US Air Marshall Training Center, Atlantic City International Airport, NJ National Guard Air Fighter Squadron, and other governmental offices.

Based upon the 1990 Census-based demographic data, the AA had 28 CTs. There were no low-income tracts (0%), one (3.57%) moderate-income tracts, nineteen (67.86%) middle-income tracts, and eight (28.57%) upper-income tracts. The 2000 Census-based demographic data shows some changes, with the exception of low-income tracts, which remained at zero. Moderate-income tracts increased from one to three, while middle-income tracts decreased from nineteen to fifteen. Upper-income tracts increased from eight to ten.

The AA was not affected by OMB's revised *Standards for Defining Metropolitan and Micropolitan Areas*, which were introduced in February 2004. There were no boundary changes in the existing MSA, no new MSAs were created, and no new metropolitan divisions were created in the AA. The obsolete identification number 0560 for the MSA was changed to a new five-digit number 12100.

The population of the AA has increased 18.2% since the 1990 Census. The 2000 Census-

demographics shows a population of 91,543 persons who are 16 years and older. This population is comprised of 43,520 households, which includes 30,702 families. In 1990 13.15% of the total families were low-income. This figure increased to 15.22% low-income families in 2000. Moderate-income families totaled 17.44% in 1990, and remained relatively stable totaling 17.30% in 2000. Middle-income families remained stable, being 25% in 1990 and 24.16% in 2000. Upper-income families showed a slight decline from 44.42% in 1990 to 43.31% in 2000. The 2000 median price of housing is \$120,975, which is an increase of 13.57% above the 1990 Census-based price of \$106,523.

The non-MSA median family income has increased 30.92% from \$43,389 in 1990 to \$56,803 in 2000. Owner occupied housing increased 25.31% since the 1990 Census. Owner occupied housing units were 26,008 in 1990 and increased by 6,603 to 32,691 in 2000. Occupied rental units increased 904 units (9.07%) from 9,965 in 1990 to 10,869 in 2000. However, demand for rental units decreased. In 1990 residential rental unit vacancy was 8.73%, and increased to 9.20% in 2000.

The seasonally adjusted rate of unemployment for the State of New Jersey as of December 2004 was 4.2%, while the non-seasonally adjusted unemployment for Atlantic-Cape May County is 6.2%. The casino industry is the major job engine in Atlantic County, with an approximate 48,000 people directly employed, many of who live in Atlantic County. Most of the other industries and municipalities in Atlantic County are directly or indirectly affected by the casinos and their large employee base.

COMMUNITY CONTACT

The community contact conducted during this examination indicated the primary credit need of this community is small business seasonal lending. However, it was also indicated that a vast majority of the community development needs are handled by the New Jersey Casino Reinvestment Development Authority. The Casino Reinvestment Development Authority (CRDA), established by the State of New Jersey in 1984, is responsible for maintaining public confidence in the casino gaming industry through the reinvestment of a portion of gaming industry revenues to revitalize Atlantic City and other areas throughout New Jersey.

New Jersey law requires that casinos pay 2.5% of their gross revenues in the form of a tax that will be allocated to community redevelopment projects, or the casino can voluntarily contribute 1.5% of their gross revenues directly to the CRDA. The CRDA provides loans and other financial assistance for the planning, acquisition, construction, reconstruction, demolition, rehabilitation, conversion, repair or alteration of buildings or facilities to provide decent, safe and sanitary dwelling units for persons of low, moderate, median, and middle income in need of housing, and to provide mortgage financing for such units. Mortgage financing results in below market rates, 100% financing plus closing costs. In addition they provide loans and other financial assistance for the planning, developing or preservation of new and existing small businesses as well as the planning, acquisition, construction, reconstruction or rehabilitation, particularly those that provide services or employment to unemployed or underemployed residents of the State; and to provide loans and other financial assistance to provide employment training and retraining, particularly for unemployed and underemployed residents of the State.

While this organization strongly fulfills the community development needs of Atlantic County, it also severely limits the lending opportunities to low-and-moderate income families by small community based

banks such as FNBA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Table A

Loan Type	% by Dollars of Loans Originated/Purchased during evaluation period	% by Number of Loans Originated/Purchased during evaluation period
Home Loans	76.08%	86.99%
Consumer Loans	N/A	N/A
Business Loans	23.92%	13.01%
Farm Loans	0%	0%
Total	100%	100%

Source: Home Loans based on HMDA data reported; Business Loans based on bank reports.

Our examination focused on home mortgage loans originating between January 1, 2002 and December 31, 2004, and small business loans originating between January 1, 2002 and December 31, 2004. When determining conclusions for the Lending Test, we placed the majority of the weight on home mortgage products as based on the number and dollar percentages in Table A. Home Purchase loans comprised 12.61% of home mortgage loans originated by number and 20.71% of home mortgage loans originated by dollars. Home Improvement loans accounted for 37.24% of home mortgage loans originated by number and 20.03% of home mortgage loans originated by dollar. Home Refinance loans were 50.15% of home mortgage loans originated by number and 59.26% of home mortgage loans originated by dollar. Small business loans totaled 13.01% by number of total loans originated during the evaluation period, and 23.92% by dollar of total loans originated during the evaluation period.

FNBA is not required to collect data for small business or farm loans since the bank's asset size is less than \$250 million. Therefore, the examiner reviewed the bank's records and credit files to determine the number, dollar amount, and revenue amount of business loans originated during the evaluation period. Revenue information was then used to determine whether the businesses qualified as small businesses for the purpose of this evaluation. FNBA is also not required to track data regarding consumer loans. The bank's Consumer Loan portfolio is minimal at approximately \$400M. Therefore, an analysis of the number and dollar of loans booked in this category or a sampling would not be meaningful. Since the bank is not in a farming area, they have not granted any farm loans.

LOAN TO DEPOSIT RATIO

FNBA's average loan-to-deposit ratio is 39.60% (for the fifteen-quarter period covering from March 30, 2001 to September 30, 2004), and does not meet the standards for satisfactory performance. However, there are strong mitigating factors for this low ratio.

- There are minimal lending opportunities for all small community banks competing against large and mid-sized banks and large out of state non-bank financial institutions. There are only

three comparable sized peer banks in the Southern New Jersey region. They have loan to deposit ratios of 67%, 74%, and 37%. Peer # 1 is a newer bank and shows a considerably higher than normal delinquency rate. Peer # 2 is a newer, smaller, more aggressive bank fighting for deposits and market share. Peer # 3 is a stable bank in a market most similar to FNBA.

- Competition for loans in the AA is fierce, further limiting lending opportunities for small community banks.
 1. There are thirty-five financial institutions competing for home mortgage loans in the AA. The 2003 Peer Mortgage Data showed FNBA to have a 0.76% market share, and rank 29 out of 35 institutions. All of the institutions are national mortgage companies and out of state bank mortgage companies, with the exception of one other local bank, which also has a 0.76% market share. The top five financial institutions granting home mortgages in the AA have a combined market share of 30.44%, and in 2003 collectively processed 7,637 home mortgage loan applications originating in the AA.
 2. Large and mid-sized banks have saturated the AA with strong branch delivery systems with regionalized lenders who strongly compete for the community banking business. It is difficult for FNBA to compete against larger lending limits and more sophisticated products, and vast branch systems.
 3. CRDA is a unique type of organization that doesn't exist in most AAs throughout the country, and provides better than market rate products to low-and-moderate income families. This organization further reduces lending opportunities for FNBA, which only has locations in Atlantic County.
- FNBA continually attempts to increase its market share of loans.
 1. In March 2002 management hired a new business development officer to solicit business loans.
 2. The bank participates in the New Jersey First Time Homebuyer Program. This program offers first time homebuyers loans requiring lower down payments and reduced interest rates.
- From time to time the bank will purchase Community Development investment bonds, which fund the development of low and moderate-income housing. Presently, the bank holds four such investments with a face value of \$2.1 million.

LENDING IN ASSESSMENT AREA

FNBA exceeds the standard for satisfactory performance for lending in the AA. A substantial majority of all home mortgage and small business loans, originated during the evaluation period, were within the AA. Total home mortgage loans made within the bank's AA during the

evaluation period is 83.14% by number and 72.76% by amount, while the total number of small business loans is 74.51% by number and 79.59% by amount.

Table 1 – Lending in Bank’s Assessment Area										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	52	82.54%	11	17.46%	63	\$5,007	73.50%	\$1,805	26.50%	\$6,812
Home Improvement	163	83.59%	32	16.41%	195	\$5,368	80.60%	\$1,292	19.40%	\$6,660
Home Refinance	204	82.93%	42	17.07%	246	\$14,804	70.05%	\$6,329	29.95%	\$21,133
Total Real Estate	419	83.14%	85	16.86%	504	\$25,179	72.76%	\$9,426	27.24%	\$34,605
Small Business	38	74.51%	13	25.49%	51	\$5,404	79.59%	\$1,386	20.41%	\$6,790

Table 1 Source: HMDA data based on loans reported; Small Business Data based on loans reviewed.

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESS OF DIFFERENT SIZES.

For home purchase, home improvement and home refinance mortgages, loans originated from January 1, 2002 to December 31, 2002 were compared to 1990 Census data. Loans which were originated between January 1, 2003 and December 31, 2004 were compared to 2000 Census data. Comparisons of data were performed in accordance with the OCC’s Census transitional guidance. Please refer to the below summarized data.

1990 Census Data – Compared to Loan Data from January 1, 2002 to December 31, 2002.

The loan data, when compared to the 1990 Census data, indicated that the level of home purchase, home improvement and home refinance mortgage loans originated to low-income borrowers in the AA was slightly below the percentage of low-income families within the AA. The bank made 11.18% of all home mortgage loan originations to low-income families, while 13.15% of all families in the AA are low-income. While the percentage of originated loans is slightly less than the percentage of low-income families, it is considered to be reasonable and meets the standards for satisfactory performance.

The level of originations to moderate-income families in the AA for home purchase, home improvement, and home refinance mortgage loans is slightly below the percentage of moderate-income borrowers. The level of moderate-income families in the AA was 17.44%, while 17.10% of all home mortgage loans were made to moderate-income families. This figure is also considered to be reasonable and meets the standards for satisfactory performance.

Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	13.15%	8.33%	17.44%	20.83%	24.99	33.33%	44.42	33.33%
Home Improvement	13.15%	23.40%	17.44%	25.53%	24.99	19.15%	44.42	31.91%
Home Refinance	13.15%	4.94%	17.44%	11.11%	24.99	24.69	44.42	55.56%

Table 2 Source: HMDA 2002 data based on loans reported

A substantial majority of all bank loans were made in the AA to small businesses with annual revenues less than \$1,000,000. A substantial majority of loans made in the bank's AA by number (#) were made to small businesses with annual revenues less than \$1,000,000. And finally, a substantial majority of loans made in the bank's AA by dollar (\$) amount were made to small businesses with annual revenues less than \$1,000,000.

Business Revenue or Sales	=< \$1,000,000	> \$1,000,000
% of AA Business	47.35%	28.09%
% of Bank Loans in AA by #	75.00%	25.00%
% of Bank Loans in AA by \$	62.76%	37.23%

Source: Business Loan sample

2000 Census Data – Compared to Loan Data from January 1, 2003 through December 31, 2004.

The percentage of home mortgage loans made to low-income borrowers in the AA for home purchase, home improvement, and refinance is 8.59%, and materially less than the 15.22% of low-income families in the AA. However, considering the small number of low-income applicants, these figures are reasonable. Based upon 2003 Peer Mortgage data, only 6.41% of all mortgage loan applicants in the AA were low-income families. This low applicant rate may be due to the inability of low-income families being able to afford housing in the AA. Based upon the 2000 Census-based demographics the median priced house costs \$120,000. Meanwhile, a

study done in 2002 by the Center for Regional and Business Research at Atlantic Cape Community College showed the value of new residential construction in Atlantic County to be \$180,000. Based upon a median income of \$56,803 a low-income family would be hard pressed to afford such housing with an income of \$27,833 (<49% of median income).

The percentage of home mortgage loans made to moderate-income borrowers in the AA for home purchase, home improvement and refinance is 18.90%, and slightly exceeds the 17.30% of moderate-income families in the AA.

In order to meet the standards for satisfactory performance under this criterion, conspicuous gaps in a small institution’s loan distribution must be adequately explained by performance context factors such as lending opportunities, product offerings and business strategies. The content in Table –2 supports there is no pattern to limit loans to these income groups. Rather these groups present less lending opportunities to the bank by their minimal number of applications.

Table 2 - Borrower Distribution of Residential Real Estate Loans in FNBA’s AA – 2003-2004								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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	15.22%	11.76%	17.30%	11.76%	24.16%		43.31%	
Home Improvement	15.22%	12.50%	17.30%	19.53%	24.16%		43.31%	
Home Refinance	15.22%	3.87%	17.30	20.15%	24.16%		43.31%	

Table 1 Source: HMDA data based on 2003 & 2004 loans reported.

A substantial majority of all bank loans were made in the AA to small businesses with annual revenues less than \$1,000,000. A substantial majority of loans made in the bank’s AA by number (#) were made to small businesses with annual revenues less than \$1,000,000. And finally, a substantial majority of loans made in the bank’s AA by dollar (\$) were made to small businesses with annual revenues less than \$1,000,000.

Table 2A – Borrower Distribution of Loans to Businesses in FNBA’s AA – 2003 - 2004		
Business Revenue or Sales	=< \$1,000,000	> \$1,000,000
% of AA Business	72.73%	27.27%
% of Bank Loans in AA by #	73.07%	21.21%
% of Bank Loans in AA by \$	51.17%	48.82%

Source: Business Loan sample

GEOGRAPHIC DISTRIBUTION OF LOANS

Geographic distribution of home mortgage loans was not applicable in this examination, since it is considered impractical to review the geographic distribution of the lending of an institution with few demographically distinct geographies within an assessment area.

1990 Census Data – Compared to Loan Data from January 1, 2002 to December 31, 2002.

There were no low-income Census Tracts located in the AA.
There was one moderate-income Census Tract located in the AA.

2000 Census Data – Compared to Loan Data from January 1, 2003 to December 31, 2004.

There were no low-income Census Tracts located in the AA.
There were only three moderate-income Census Tracts located in the AA.

RESPONSE TO COMPLAINTS

The bank has not received any CRA-related consumer complaints since the last CRA examination.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examiner did not find any evidence of illegal discrimination or other illegal credit practices.