



**LARGE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

February 11, 2008

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

The First National Bank of Palmerton  
Charter Number: 8930

4th Street and Lafayette Avenue  
Palmerton, PA 18071

Office of the Comptroller of the Currency

NEW YORK METRO-EAST  
343 Thornall Street Suite 610  
Edison, NJ 08837

**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 Outstanding.

The following table indicates the performance level of The First National Bank of Palmerton (FNBP) with respect to the Lending, Investment, and Service Tests:

Performance Levels	First National Bank of Palmerton Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding	X		
High Satisfactory		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:

- FNBP’s lending activity is good, given the bank’s size, resources, and competition in the bank’s major markets.
- The geographic distribution of loans reflects excellent penetration throughout the assessment area.
- During the evaluation period, FNBP originated a substantial majority of its loans in the combined AAs.
- The distribution of borrowers reflects good penetration among retail customers of different income levels and businesses of different sizes.
- Flexible lending products have a positive impact, while community development lending has a neutral impact.
- FNBP has a good level of qualified investments and grants considering the fierce competition for investment opportunities.
- Service delivery systems are readily accessible to geographies and individuals of different income levels.
- FNBP provides a relatively high level of community development services.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation, including the CRA tables. 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.

**Aggregate Lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**Census Tract (CT):** A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Community Development:** Affordable housing (including multifamily rental 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**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.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

**Full Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States 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 applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn). Beginning in 2004, the reports also include additional data on loan pricing, the lien status of the collateral, any requests for preapproval and loans for manufactured housing.

**Home Mortgage Loans:** Such loans include home purchase, home improvement and refinancings, as defined in the HMDA regulation. These include loans for multifamily (five or more families) dwellings, manufactured housing and one-to-four family dwellings other than manufactured housing.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited 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, and branch distribution).

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the MA/assessment area.

**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 Area (MA):** Any metropolitan statistical area or metropolitan division, as defined by the Office of Management and Budget and any other area designated as such by the appropriate federal financial supervisory agency.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Other Products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Rated Area:** A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier One 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:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.

## Description of Institution

First National Bank of Palmerton (FNBP) is an intrastate community bank with total assets of \$541.6 million as of December 31, 2007. FNBP is a full service bank offering a wide range of commercial and personal banking products within their Pennsylvania market. The bank offers a variety of commercial, consumer, and real estate loans to suit their customer's needs. FNBP is a sole subsidiary of Palm-Bancorp, Inc. The one bank holding company has total consolidated assets of \$540 million as of December 31, 2007. Both FNBP and Palm-Bancorp, Inc. are located in Palmerton, PA. FNBP has 9 branches equipped with a drive-up and ATM facility. FNBP has not opened or closed any branches since the prior CRA exam. The bank serves the following Pennsylvania Counties: Monroe, Carbon, Northampton and Lehigh.

As of December 31, 2007, net loans and leases totaled \$312 million or 56 percent of total assets. Total deposits were \$461 million. Tier 1 Capital as of December 31, 2007 was \$73.5 million. The loan portfolio is broken down as following:

Loan Category	Residential Mortgage Loans Estate	Commercial Real Estate Loans	Commercial Loans	Other
\$ amount (in thousands)	174,922	111,993	21,663	6,760
% of loan portfolio	55.47%	35.52%	6.87%	2.14%

Numbers as of 12/31/2007

The bank's primary strategy is to originate small business loans and real-estate loans for affordable housing. FNBP is in a highly competitive marketplace. Competition comes from large community banks, regional and national financial institutions as well as credit unions, non-bank financial institutions and mortgage companies. FNBP's primary competitors include Wachovia, PNC, Citizens Bank, Wells Fargo, and Keystone Nazareth Bank and Trust.

There were no financial or legal impediments to hinder FNBP's ability to help meet the community's credit needs.

FNBP was rated "Satisfactory" at its last CRA Performance Evaluation dated May 16, 2005.

## Scope of the Evaluation

### Evaluation Period/Products Evaluated

The evaluation for the Lending Test covers January 1, 2004 through September 30, 2007. Our extended evaluation period is due to the prior examination evaluation period ending in 2003. The scope of our review did not include small farm or multi-family loans, due to negligible volume of originations. We did not include the Non-Metropolitan Statistical Area (MSA) - Monroe County in the geographic distribution analysis for the lending test, as that assessment area (AA) does not have any low- and moderate-income geographies.

For the Community Development (CD) Loans, Investment, and Service Tests, the evaluation period is from May 17, 2005 through February 11, 2008. The Investment Test included a review of investments, grants, and donations made in the bank's AAs that meet the definition of community development. Any qualified investments originated in prior periods and still outstanding at February 11, 2008, were given appropriate consideration. The Service Test included a review of retail and community development services provided in the bank's AAs. An evaluation of the reasonableness of business hours and services meeting the AA needs in Non-MSA-Monroe County was not completed due to the lack of low- and moderate-income geographies within the area. The bank's investments and retail services were evaluated using Census 2000 demographic data and the revised MSA boundaries.

### Data Integrity

FNBP's publicly filed information for Home Mortgage Disclosure Act (HMDA) reportable loans and small loans to businesses were tested for accuracy. Results of this testing evidenced the data is sufficiently accurate for purposes of this CRA evaluation.

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

### Selection of Areas for Full-Scope Review

The bank has two AAs: Allentown-Bethlehem-Easton, PA-NJ MSA (10900) and Monroe County, a non-MSA. Both of these AAs will receive a full-scope review.

#### **Allentown-Bethlehem-Easton, PA-NJ, MSA (10900) (Lehigh Valley)**

FNBP's AA is made up of portions of the Allentown-Bethlehem-Easton MSA. It is comprised of three partial counties: the eastern portion of Carbon County, the northeastern portion of Lehigh County, and the northern portion of Northampton County.

#### **Non-MSA – (Monroe County)**

Monroe County is located in a Non-MSA portion of Pennsylvania. The bank's AA is comprised of the entire county.

Refer to the market profiles of both AAs located in appendix B for detailed demographics and other performance context information.

## **Ratings**

The Lending Test was more heavily weighted than the Service or Investment Test. HMDA loans were also given more weight due to the higher volume of this type of loan, in comparison to small loans to businesses.

Both the Allentown-Bethlehem-Easton, PA-NJ MSA and Non-MSA - Monroe County were equally weighted when deriving the overall rating. However, more weight was given to the Allentown-Bethlehem-Easton, PA-NJ MSA (Lehigh Valley) for the borrower distribution of small loans to businesses due to the higher volume.

Our conclusions related to community development loans and qualified investments were based on the number and dollar amounts made during the evaluation period. In addition we considered the level of innovation, complexity, responsiveness to community credit needs and the degree to which these instruments are not routinely provided by private investors.

Our conclusions regarding the community development services were based on the number of services performed, the number of people providing services, and the type of services performed.

## **Other**

In conducting the assessment of the bank's performance, we contacted a local county economic development organization. The contact indicated that there is a need for additional loans to small businesses throughout Lehigh Valley. The organization aids these businesses in receiving state and local funding for operations, which allows the businesses to relocate into the community. Additional jobs are created and existing jobs are retained as the pool of employers in the area grows. This leads to higher wages for workers throughout the MSA. Overall, the contact felt that all of the local community banks were very receptive to meeting the credit needs of the area.

We also reviewed contacts conducted during other local CRA exams in order to get a further sense of the lending needs of the community. Affordable housing for low- and moderate-income individuals remains a priority. Other credit needs include general credit counseling and resources on how to obtain affordable housing and how to protect against predatory lending.

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

We found no evidence of illegal discrimination or other illegal credit practices.

## Conclusions with Respect to Performance Tests

### LENDING TEST

#### Conclusions for Areas Receiving Full-Scope Reviews

The bank's performance under the lending test in Pennsylvania is rated "Outstanding." Based on full-scope reviews, the bank's performance in the Allentown–Bethlehem–Easton, PA-NJ MSA is excellent, and in the non-MSA - Monroe County, the bank's performance is good.

#### Lending Activity

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's lending activity.

#### Allentown–Bethlehem–Easton, PA-NJ MSA (10900) (Lehigh Valley)

##### *Home Mortgage Loans*

FNBP's mortgage lending penetration is good in Lehigh Valley when taking into consideration the strong competition from large national and regional banks in the area and is reflective of the credit needs of the community.

There are five community offices in the AA; three in Northampton County, one in Carbon County, and one in Lehigh County. Based on the June 30, 2007 FDIC Summary of Deposits, within the MSA, the bank ranked 11 out of 37 institutions with a 1.98 percent market share. Banks ranked ahead of FNBP include Wachovia Bank, PNC Bank, Bank of America, and Sovereign Bank.

The bank's lending levels reflect good responsiveness to the credit needs of the community. Approximately 52 percent of all home mortgage loans and approximately 66 percent of small loans to businesses were originated in Lehigh Valley. Among home mortgage loan originations and purchases, approximately 51 percent were home refinance loans, 30 percent were home improvement loans, and 19 percent were home purchase loans.

FNBP is ranked competitively among mortgage lenders in Lehigh Valley. Based on the 2006 market share data for all mortgage data, the bank ranked 17th out of 391 lenders with 1.49 percent market share by number of loans. This is considered a good level of penetration given the highly competitive market. The top ten lenders are comprised of large nationwide banks and mortgage companies. Collectively, these larger institutions capture 39 percent of the market with market share ranging from 2 percent to 9 percent.

Based on this same 2006 HMDA aggregate data, FNBP ranked 34 out of 266 lenders in the AA with a 0.74 percent market share in home purchase lending, 11 out of 127 lenders in the AA with a 2.81 percent market share in home improvement lending, and 14 out of 290 lenders in the AA with a 1.69 percent market share in home refinance lending.

***Small Loans to Businesses***

Based upon the 2006 CRA aggregate data, FNBP ranked 19 out of 85 lenders with a market share of 0.58 percent based upon number of loans. The top five national banks and credit card lenders capture 64 percent of the market share by count. However, FNBP ranked ninth among the lenders when dollar amount is compared with a 2.60 percent market share. This is considered excellent in comparison to the bank's deposit market share of 1.98 percent.

**Non-MSA – (Monroe County)**

***Home Mortgage Loans***

FNBP's mortgage lending penetration is adequate in Monroe County when taking into consideration the strong competition from large multinational and regional banks who are in the area and is reflective of community credit needs.

There are four community offices within Monroe County. Based on the June 30, 2007 FDIC Summary of Deposits, the bank ranked fourth out of seventeen institutions with an 11.27 percent market share. Banks ranked ahead of FNBP include PNC Bank, Essa Bank & Trust, and Citizens Bank.

The bank's lending levels reflect adequate responsiveness to the credit needs of the community. Approximately 48 percent of all home mortgage loans and approximately 34 percent of small loans to businesses were originated in the AA. Among home mortgage loan originations and purchases, approximately 48 percent were home refinance loans, 41 percent were home improvement loans, and 11 percent were home purchase loans.

FNBP is ranked competitively among mortgage lenders in the Monroe AA. Based on the 2006 market share data for all home mortgages, the bank ranked 15th out of 379 lenders with a 1.63 percent market share by number of loans. This is considered an adequate level of penetration given the highly competitive market. The top ten lenders are comprised of large nationwide banks and mortgage companies. Collectively, these larger institutions capture 34 percent of the market with market share ranging from 2 percent to 12 percent.

Based on this same 2006 HMDA aggregate data, FNBP ranked 51 out of 283 lenders in the AA with a 0.38 percent market share in home purchase lending, 3 out of 117 lenders in the AA with a 9.04 percent market share in home improvement lending, and 21 out of 298 lenders in the AA with a 1.43 percent market share in home refinance lending.

***Small Loans to Businesses***

Based upon the 2006 CRA aggregate data, FNBP ranked 14 out of 60 lenders with a market share of 0.90 percent based upon number of loans. The top five national banks and credit card lenders capture 61 percent of the market share by count. FNBP ranked fourth among the lenders when dollar amount is compared with a 6.32 percent market share. This is considered adequate in comparison to the bank's deposit market share of 11.27 percent, considering the high level of competition for small business loans in the AA.

## **Distribution of Loans by Income Level of the Geography**

The overall geographic distribution of loans is excellent. The distribution of home mortgage loans across different geographies is excellent, while the geographic distribution of small loans to businesses is good.

### **Allentown–Bethlehem–Easton, PA-NJ MSA (10900) (Lehigh Valley)**

We did not evaluate performance in low-income geographies as there are no low-income census tracts within this AA.

#### ***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 the bank's home mortgage loan originations/purchases.

#### **Home Purchase Lending**

The geographic distribution of home purchase loans is excellent. The percent of lending in the moderate-income geographies significantly exceeds the percent of owner occupied housing in these geographies. FNBP's market share in moderate-income tracts meets its overall market share.

#### **Home Improvement Lending**

The geographic distribution of home improvement lending is excellent. The percent of lending in the moderate-income geographies significantly exceeds the percent of owner occupied housing in these geographies. FNBP's market share in moderate-income tracts meets its overall market share.

#### **Home Refinance Lending**

The geographic distribution of home refinance lending is excellent. The percent of lending in the moderate-income geographies significantly exceeds the percent of owner occupied housing in these geographies. FNBP's market share in moderate-income tracts exceeds its overall market share.

#### ***Small Loans to Businesses***

Refer to Table 6 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.

Geographic distribution of small loans to businesses is good. The percent of small loans to businesses in moderate-income geographies exceeds the percent of businesses in these geographies. FNBP's market share of small loans to businesses is below its overall market share in moderate-income geographies.

### **Non-MSA – (Monroe County)**

There are no low- or moderate-income tracts within this AA. Therefore, no analysis of the distribution of loans by income level of the geography was performed.

## **Lending Gap Analysis**

Our review of the geographic distribution of loans did not detect any conspicuous or unexplained gaps in lending patterns.

### **Inside/Outside Ratio**

This portion of the evaluation was performed at the bank level. During the evaluation period, FNBP originated a substantial majority of its loans in the combined AAs. During the evaluation period from 2004 to September 30, 2007, 93 percent of the number and 89 percent of the dollar amount of HMDA originations and purchases were within the bank's combined assessment areas. The number and dollar amount of loans originated in the AAs during the evaluation period by product types are as follows: 84 percent of the number and 81 percent of the dollar amount of home purchase loans, 94 percent of the number and 95 percent of the dollar amount of home improvement loans, and 95 percent of the number and 92 percent of the dollar amount of home refinance loans. Regarding small loans to businesses, 82 percent of the number and 77 percent of the dollar amount of total originations were within the combined AAs. This performance was positively factored into the overall analysis of the geographic distribution of lending by income level of geography.

### **Distribution of Loans by Income Level of the Borrower**

The overall borrower distribution of loans is good. The distribution of home mortgage loans among borrowers of different income levels and businesses of different sizes are both good.

In our analysis, we considered the lack of affordability for a low-income individual or family to purchase a home. This lack of affordability limits the opportunities for home purchase, home improvement, and home refinance lending to low-income individuals or families.

During the evaluation period, the weighted average of median housing value for Lehigh Valley was \$116,213 and a low-income individual or family earned less than \$26,926. Further, 6.5 percent of the households within the AA were below the poverty level and are considered very low-income.

The market for loans to small businesses with revenues equal to or under \$1 million is very competitive in the MSA. FNBP ranks 19 out of 85 lenders with a market share of 0.83 percent. The top five national institutions and credit card companies control approximately 62 percent of the market share. Based on dollar amount, FNBP ranks 13 out of the 85 lenders with a market share of 2.06 percent. This evidences the bank's desire to service the lending needs of small businesses.

In the non-MSA-Monroe County, the weighted average of median housing value was \$122,155 and a low-income individual or family earned less than \$20,737 during the evaluation period. Further, 9 percent of the households within the AA were below the poverty level and are considered very low-income.

The market for loans to small businesses with revenues equal to or under \$1 million is very competitive in the non-MSA. The bank ranks 11 out of 60 lenders with a market share of 1.77

percent. The top five national institutions and credit card companies control approximately 71 percent of the market share. Based on dollar amount, FNBP ranks 2 out of the 60 lenders with a market share of 8.9 percent. This is additional evidence of the bank's desire to meet the lending needs of small businesses.

**Allentown–Bethlehem–Easton, PA-NJ MSA (10900) (Lehigh Valley)**

***Home Mortgage Loans***

Refer to Tables 8, 9 and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

**Home Purchase Lending**

Borrower distribution of home purchase loans is excellent. The percent of loans originated to low-income borrowers is significantly below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in both low- and moderate-income tracts significantly exceeds its overall market share.

**Home Improvement Lending**

The borrower distribution of home improvement loans is good. The percent of loans originated to low-income borrowers is significantly below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in low-income tracts is near its overall market share, while their share of lending in moderate-income tracts exceeds their overall market share.

**Home Refinance Lending**

The geographic distribution of home refinance lending is good. The percent of loans originated to low-income borrowers is below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in low-income tracts meets its overall market share, while lending in moderate-income tracts exceeds their overall market share.

***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination and purchase of small loans to businesses.

The distribution of small loans to businesses is good when considering the distribution by size of loan and the strong competition from larger, nationwide lenders that offer small business credit cards.

The percent of small loans to businesses with gross annual revenues of \$1 million or less meets the percent of businesses in the AA. FNBP's market share of lending to small businesses exceeds its overall market share. The distribution by size of loan shows that 67 percent of the loan originations are for \$100,000 or less. This is another indication that business lending is primarily to small businesses.

**Non-MSA – (Monroe County)*****Home Mortgage Loans***

Refer to Tables 8, 9 and 10 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations and purchases.

**Home Purchase Lending**

Borrower distribution of home purchase loans is good. The percent of loans originated to low-income borrowers is significantly below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in both low- and moderate-income tracts significantly exceeds its overall market share.

**Home Improvement Lending**

The borrower distribution of home improvement loans is adequate. The percent of loans originated to low-income borrowers is significantly below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in low-income tracts is significantly above its overall market share, while their share of lending in moderate-income tracts meets their overall market share.

**Home Refinance Lending**

The borrower distribution of home refinance lending is good. The percent of loans originated to low-income borrowers is significantly below the percent of low-income families in the AA. The percent of loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA. FNBP's market share in both low- and moderate-income tracts significantly exceeds its overall market share.

***Small Loans to Businesses***

Refer to Table 11 in appendix C for the facts and data used to evaluate the borrower distribution of the bank's origination and purchase of small loans to businesses.

The distribution of small loans to businesses is excellent when considering the distribution by size of loan and the strong competition from large national, regional, and credit card banks.

The percent of small loans to businesses with gross annual revenues of \$1 million or less exceeds the percent of businesses in the AA. FNBP's market share of lending to small businesses significantly exceeds its overall market share. The distribution by size of loan shows that 72 percent of the loan originations are for \$100,000 or less. This is another indication that business lending is primarily to small businesses.

**Community Development Lending**

Refer to Table 1 Lending Volume in appendix C for the facts and data used to evaluate the bank's level of community development lending.

The bank's community development lending has a neutral impact on the bank's rating. There was only one community development loan made during the evaluation period. It was a six-month term construction loan for \$364 thousand. The loan stabilizes and revitalizes moderate-income geographies. The company would be adding 10 new employees due to the expansion. Therefore, the loan qualifies as a community development loan.

## **Product Innovation and Flexibility**

Innovative and flexible products have a positive impact on the bank's rating. A flexible lending product is the bank's first-time homebuyer program. This product is offered in both assessment areas. In 2004, the bank disbursed \$1.1 million in loans under the program; The bank disbursed \$1.2 million in 2005, \$981 thousand in 2006, and \$1.4 million in 2007. Over the evaluation period, 43 loans were disbursed under the program, with an average loan size of approximately \$100 thousand. The bank currently has \$1.5 million available for disbursement with this program for 2008. First-time homebuyers use this product to waive closing costs and fees. While there is no analysis available, management believes that this program has allowed the bank to originate affordable housing loans to low- and moderate-income individuals and families. This is evidenced by the volume of loans to low- and moderate-income individuals.

## **INVESTMENT TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Investment Test is rated "High Satisfactory." Based on our analysis, FNBP's performance in the Allentown-Bethlehem-Easton, PA-NJ MSA is good and performance in the Non-MSA – Monroe County is adequate. Total investments, grants, and donations totaled \$1.21 million or 1.64% of Tier-1 Capital.

Refer to Table 14 in Appendix C for the facts and data used to evaluate the bank's level of qualified investments.

### **Allentown-Bethlehem-Easton, PA-NJ MSA (10900) (Lehigh Valley)**

FNBP has a good level of qualified investments and grants and exhibited good responsiveness to credit and community economic development needs. Investment opportunities do exist but are hard to come by given FNBP's small size and the fierce competition for such opportunities.

During the evaluation period, a total of \$1.02 million in funds were dispersed in this MSA. FNBP invested in one mortgage-backed security (MBS) totaling \$1.1 million. Seven of the nine mortgages collateralizing the MBS were originated to low- and moderate-income families in the MSA and totaled \$922 thousand. While all seven of the mortgages were originated in the Lehigh Valley, not all were within the bank's AA.

FNBP also made 34 grants and donations for a total of \$102 thousand to numerous organizations that provide economic development, affordable housing, and community services to low- and moderate-income individuals in the Lehigh Valley.

### **Non-MSA – (Monroe County)**

FBNP has an adequate level of qualified investments and grants and exhibited adequate responsiveness to credit and community economic development needs. Investment opportunities are limited and are hard to come by given FBNP's small size and the extreme competition for such opportunities.

During the evaluation period, a total of \$184 thousand in funds were dispersed in Monroe County. FBNP invested in one mortgage-backed security (MBS) totaling \$1.1 million. Two of the nine mortgages collateralizing the MBS were originated to low- and moderate-income families in Monroe County and totaled \$173 thousand.

FBNP also made 27 grants and donations for a total of \$11 thousand to numerous organizations that provide economic development, affordable housing, and community services to low- and moderate-income individuals in Monroe County.

## **SERVICE TEST**

### **Conclusions for Areas Receiving Full-Scope Reviews**

The bank's performance under the Service Test is rated "High Satisfactory." Based on full-scope reviews, the bank's performance in the Allentown-Bethlehem-Easton, PA-NJ MSA is excellent and in the Non-MSA-Monroe County is good.

### **Allentown-Bethlehem-Easton, PA-NJ MSA (10900) (Lehigh Valley)**

#### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's community office delivery system and community office openings and closings. There are no low-income geographies within the AA.

FBNP's delivery systems are readily accessible to geographies and individuals of different income levels in the Lehigh Valley. FBNP operates five of its nine community offices within the MSA. Of these five branches, two are located in moderate-income geographies, three are located in middle-income geographies, and none are located in upper-income geographies.

As a percent of the total number of community offices, 40 percent of the community offices are located in moderate-income geographies where 12.21 percent of the population resides. In addition, the bank has two branches adjacent to two of the five moderate-income geographies. Consequently, the distribution of FBNP's community offices in moderate-income geographies is significantly above the percent of the population residing in such geographies.

During the evaluation period, FBNP did not open or close any branches. There are no plans to open or close any branches in the near future.

The bank's services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies or low- and moderate-income individuals. All of the branches, with the exception of the main office have the same hours. The main office which is located in a moderate-income geography has extended lobby hours. All five of the branches have Saturday hours and are equipped with drive-through services and an ATM. A full line of traditional banking products and services are offered at all community offices. In addition, the bank offers a senior citizens checking account which waives monthly service charges.

### **Community Development Services**

FNBP is a leader in providing community development services within the Allentown-Bethlehem-Easton, PA-NJ MSA. During the evaluation period five employees provided financial expertise and leadership services to twelve different qualifying community development organizations serving the AA. The following are the CD services provided by FNBP in which employees hold key positions:

**Carbon County Chamber of Commerce** (*Train and develop future leaders in the local community in all areas of economic development.*)

- Director

**Palmerton Area Chamber of Commerce** (*Promote economic development of Palmerton area by providing low rate loans to small businesses.*)

- Director

**Carbon County Economic Development Council** (*Provide financing to small businesses to develop the local economy by providing jobs and enhancing economic growth.*)

- Director

**Blue Mountain Health Systems** (*Provide free health care services to low-income families in the local community.*)

- Director (Finance and Executive Committee)

**Carbon County Leadership Development** (*Develop future leaders of the community by providing training and seminars to instruct them in means to improve the economic welfare of the county.*)

- Director

**Dreams Come True** (*Fulfill dreams of low-income children suffering from terminal illnesses.*)

- Treasurer

**Junior Achievement** (*Provide classroom instruction to low- and moderate-income children regarding business education.*)

- Teacher

**FACES** (*It is a non-profit community organization based in Bangor, PA which provides academic scholarships for low- and moderate-income individuals.*)

- Director and Chair of Fundraising Committee

**Bath Borough Business Revitalization Program** (*Provide support to transform the downtown area into a thriving destination for commerce and maintain small businesses.*)

- Member on Business Committee

**Nazareth Area Chamber of Commerce** (*Advancing and promoting the greater Nazareth/Bath area. Fostering economic success and preserving the community's heritage.*)

- Director

**Partners for Progress** (*An alliance of local businesses dedicated to enhancing the economic conditions of the county by attracting new businesses and improving the life and welfare of the local residents.*)

- Director

**Salvation Army** (*Provide aid and assistance to low-income and needy families and individuals.*)

- Treasurer

### **Non-MSA - (Monroe County)**

#### **Retail Banking Services**

Refer to Table 15 in appendix C for the facts and data used to evaluate the distribution of the bank's community office delivery system and community office openings and closings.

FNBP's delivery systems are readily accessible to geographies and individuals of different income levels in Monroe County. FNBP operates four of its nine community offices within the AA. There are no low- or moderate-income geographies within the AA. The four branches are located in middle- and upper-income geographies.

During the evaluation period, FNBP did not open or close any branches. There are no plans to open or close any branches in the near future.

An evaluation of the reasonableness of business hours and services meeting the AA needs in Monroe County was not completed due to the lack of low- and moderate-income geographies within the area.

FNBP offers a full range of traditional banking services and products at all community offices. In 2007, the bank began participating in the Family Savings Account (FSA) Program. FSA is geared towards low- and moderate-income families in Monroe County. Through the program, the bank establishes interest-bearing savings/ money market parallel accounts for Community Housing Solutions which are used to deposit the matched funds for the FSAs and from which funds are drawn on at asset purchase. During the evaluation period, only one account has been opened thus far. In addition, the bank offers a senior citizens checking account which waives monthly service charges.

#### **Community Development Services**

FNBP provides a relatively high level of community development services in Monroe County. During the evaluation period four employees provided financial expertise and leadership services to five different qualifying community development organizations serving the AA. The following are the CD services provided by FNBP in which employees hold key positions:

**Monroe County Agricultural Land Preservation Program** (*Protect and promote continued productive agricultural use on viable lands in the county owned by small farmers through the use of perpetual conservation easements.*)

- Director

**Growing Place Child Care Center** (*This is a non-profit organization which provides child care to low-income families through association with the United Way.*)

- Director

**Concourse Club** (*Community service club which focuses on low-income families. Some of the activities include providing membership fees to the Community Swimming Pool for low-income children.*)

- Finance Chair

**Community Housing Solutions** (*Promotes housing for low- and moderate-income families in Monroe County.*)

- Director

**Family Savings Account Program** (*Help low- and moderate-income individuals and families acquire assets to improve their financial well being.*)

- Committee member

## 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”).

<b>Time Period Reviewed</b>	Lending Test (excludes CD Loans): (01/01/04 to 09/30/07) Investment and Service Tests and CD Loans: (05/17/05 to 02/11/08)	
<b>Financial Institution</b>	<b>Products Reviewed</b>	
First National Bank of Palmerton (FNBP) Palmerton, Pennsylvania	Home mortgage loans, small loans to businesses, CD loans, investments and services	
<b>Affiliate(s)</b>	<b>Affiliate Relationship</b>	<b>Products Reviewed</b>
Palm Bancorp Inc. Palmerton, Pennsylvania	Holding Company	None
<b>List of Assessment Areas and Type of Examination</b>		
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Other Information</b>
Allentown – Bethlehem – Easton, PA - NJ MSA #10900	Full-Scope	
Non-MSA – Monroe County	Full-Scope	

## Appendix B: Market Profiles for Full-Scope Areas

### Allentown-Bethlehem-Easton, PA-NJ, MSA (10900)

Demographic Information for Full-Scope Area: Allentown-Bethlehem-Easton, PA-NJ, MSA (10900)						
Demographic Characteristics	#	Low percent of #	Moderate percent of #	Middle percent of #	Upper percent of #	NA* percent of #
Geographies (Census Tracts/BNAs)	40	0.00	12.50	72.50	15.00	0.00
Population by Geography	198,241	0.00	12.12	69.21	18.67	0.00
Owner-Occupied Housing by Geography	84,409	0.00	11.49	69.97	18.53	0.00
Businesses by Geography	10,947	0.00	12.64	65.20	22.16	0.00
Farms by Geography	428	0.00	5.14	79.91	14.95	0.00
Family Distribution by Income Level	56,111	16.81	20.63	25.52	37.03	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	21,012	0.00	17.55	71.15	11.29	0.00
Median Family Income = \$53,852		Median Housing Value = \$116,213				
HUD Adjusted Median Family Income for 2007 = \$65,900		Unemployment Rate = 4.2%				
Households Below the Poverty Level = 6.47%						

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

Source: 2000 U.S. Census, 2007 HUD updated MFI and U.S. Department of Labor 12/07 not seasonally adjusted unemployment rate.

FNBP's AA is made up of only portions of the Allentown-Bethlehem-Easton MSA. It is comprised of three partial counties: the eastern portion of Carbon County, the northeastern portion of Lehigh County, and the northern portion of Northampton County. The AA complies with the CRA guidelines and does not arbitrarily exclude low- and moderate-income (LMI) geographies.

According to the 2000 U.S. Census Data, there are 40 census tracts in this AA. There are no low-income tracts, 5 moderate-income tracts, 29 middle-income tracts, and 6 upper-income tracts.

The 2000 U.S. Census Data reported the total population of the assessment area at 198,241. This population was comprised of 76,254 households and 56,111 families. There are 84,409 housing units, of which, 94 percent were one to four family units and 20 percent were rental units. Owner-occupied housing is 72 percent, rental-occupied housing is 18 percent, and vacant housing is 10 percent. The median housing cost is \$116,213.

The median family income was \$53,852 and the HUD updated MSA median family income is \$65,900. Approximately 6.5 percent of the households are below the poverty level. Approximately 17 percent of the families in the AA are low-income, 21 percent are moderate-income, 25 percent are middle-income, and 37 percent are upper-income.

Based on the housing values and the median family income, there is lack of affordability for a low-income individual or family to purchase a home. According to the above, the average median housing value is \$116,213, and a low-income individual or family earns less than \$27,080.

According to the 2007 Business Geodemographics Data, there are a total of 10,947 businesses and 428 farms. Approximately 13 percent of the businesses are located in moderate-income tracts, 65 percent are located in middle-income tracts, and 22 percent are located in upper-income tracts. Approximately 70 percent of the businesses reporting have revenues less than \$1 million and approximately 73 percent of the businesses and farms reporting had less than 10 employees.

The primary industries in the MSA are healthcare and government. Major employers in the MSA include Lehigh Valley Hospital and Health Network, St. Luke's Hospital, Air Products and Chemicals, U.S. Government, and PPL Corporation. The unemployment rate not seasonally adjusted, as of December 2007, for the Allentown-Bethlehem-Easton, PA-NJ MSA is 4.2 percent, compared to the national unemployment rate of 5.0 percent.

There are a total of 5 branches located in the Allentown-Bethlehem-Easton MSA, accounting for 56 percent of the total number of FNBPs branches. All branches have extended hours of operation at least one day a week as well as Saturday morning hours. In addition, all branches are equipped with ATMs and offer drive-through services. A full line of traditional banking products and services are offered at all branch locations.

Based on the June 30, 2007 FDIC Deposit Market Share Report, FNBPs ranked eleventh out of 37 institutions with a 1.98 percent market share in the Allentown-Bethlehem-Easton, PA-NJ MSA. Competition for both loans and deposits is strong in this MSA, particularly from larger multi-state financial institutions. According to the June 30, 2007 deposit data, the major competitors are Wachovia Bank, NA, ranking first with a 24.11 percent market share; Keystone Nazareth B&T Co., ranking second with an 11.57 percent market share; PNC Bank, NA, ranking third with an 11.14 percent market share; Lafayette Ambassador Bank ranking fourth with a 7.44 percent market share and Bank of America, NA, ranking fifth with a 5.31 percent market share. Based upon the 2007 HMDA peer mortgage data, FNBPs ranked 17th out of 391 lenders with 1.49 percent market share by number of loans in the AA. The top five lenders in the AA were Countrywide Home Loan, Keystone Nazareth Bank & Trust, Wachovia Bank, Wells Fargo Bank, and CitiMortgage, Inc. The top five lenders had a market share of 27 percent by number of loans.

During this examination, we met with a community contact and also reviewed recent community contacts to determine the credit needs of this area. We determined there is an overall credit need for affordable housing, small business loans, and basic financial services. Affordable housing is lacking in the area due to rising real-estate costs, development costs, energy costs, and limited developable land.

**Non-MSA – (Monroe County)**

Demographic Information for Full-Scope Area: Non-MSA – (Monroe County)						
Demographic Characteristics	#	Low percent of #	Moderate percent of #	Middle percent of #	Upper percent of #	NA* percent of #
Geographies (Census Tracts/BNAs)	23	0.00	0.00	39.13	60.87	0.00
Population by Geography	138,687	0.00	0.00	37.16	62.84	0.00
Owner-Occupied Housing by Geography	38,742	0.00	0.00	33.63	66.37	0.00
Businesses by Geography	8,247	0.00	0.00	44.27	55.73	0.00
Farms by Geography	202	0.00	0.00	33.66	66.34	0.00
Family Distribution by Income Level	36,602	12.72	14.39	19.97	52.92	0.00
Distribution of Low- and Moderate-Income Families throughout AA Geographies	9,922	0.00	0.00	42.85	57.15	0.00
Median Family Income = \$41,475		Median Housing Value = \$122,155				
HUD Adjusted Median Family Income for 2007 = \$50,600		Unemployment Rate = 4.7%				
Households Below the Poverty Level = 8.68%						

(\*) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census, 2007 HUD updated MFI and U.S. Department of Labor 12/07 not seasonally adjusted unemployment rate.

Monroe County is located in a Non-MSA portion of Pennsylvania. The bank’s assessment area is comprised of the entire county and complies with the CRA guidelines by not arbitrarily excluding low- and moderate-income (LMI) geographies.

According to the 2000 U.S. Census Data, there are 23 census tracts in the county. There are no low- or moderate-income tracts, 9 middle-income tracts, and 14 upper-income tracts.

The 2000 U.S. Census Data reported the total population of Monroe County at 138,687. This population was comprised of 49,508 households and 36,602 families. There are 67,581 housing units, of which, 97 percent were one to four family units and 18 percent were rental units. Owner-occupied housing is 57 percent, rental-occupied housing is 16 percent, and vacant housing is 27 percent. The median housing cost is \$122,155.

The median family income was \$41,475 and the HUD updated MSA median family income is \$50,600. Approximately 8.7 percent of the households are below the poverty level. Approximately 13 percent of the families in the county are low-income, 14 percent are moderate-income, 20 percent are middle-income, and 53 percent are upper-income.

Based on the housing values and the median family income, there is lack of affordability for a low-income individual or family to purchase a home. According to the above, the average median housing value is \$122,155, and a low-income individual or family earns less than \$25,300.

According to the 2007 Business Geodemographics Data, there are a total of 8,247 businesses and 202 farms. Approximately 44 percent of the businesses are located in middle-income tracts, and 56 percent are located in upper-income tracts. Approximately 72 percent of the businesses reporting have revenues less than \$1 million and approximately 75 percent of the businesses and farms reporting had less than 10 employees.

The primary industries in Monroe County are tourism, construction, and manufacturing. Major employers in the county include Aventis Pasteur, Weiler Corporation, Camelback Ski Corporation, and the U.S. Government. The unemployment rate not seasonally adjusted, as of December 2007, for Monroe County, PA is 4.7 percent, compared to the national unemployment rate of 5.0 percent.

There are a total of 4 branches located in Monroe County, accounting for 44 percent of the total number of FNBP's branches. All branches have extended hours of operation at least one day a week as well as Saturday morning hours. In addition, all branches are equipped with ATMs and offer drive-through services. A full line of traditional banking products and services are offered at all branch locations.

Based on the June 30, 2007 FDIC Deposit Market Share Report, FNBP ranked fourth out of 17 institutions with an 11.27 percent market share in Monroe County, PA. Competition for both loans and deposits is strong in the county, particularly from larger multi-state financial institutions. According to the June 30, 2007 deposit data, the major competitors are PNC Bank, NA, ranking first with a 23.19 percent market share; ESSA Bank & Trust, ranking second with an 18.95 percent market share; Citizens Bank of PA, ranking third with a 14.56 percent market share; and Wachovia Bank, NA, ranking fifth with an 8.60 percent market share. Based upon the 2007 HMDA peer mortgage data, FNBP ranked 15th out of 379 lenders with 1.63 percent market share by number of loans in Monroe County. The top five lenders in the county were Countrywide Home Loans, Wells Fargo Bank, Countrywide Bank, ESSA Bank & Trust, and Washington Mutual Bank. The top five lenders had a market share of 24 percent by number of loans.

During this examination, we reviewed recent community contacts to determine the credit needs of this area. We determined there is an overall credit need for funding to develop affordable housing, especially given the recent influx of individuals from New York and New Jersey who have driven up the median cost of housing and median income. For those native to Monroe County or working in Monroe County, it is more and more difficult to afford a home or to stay in a home. In addition, there is a need to educate consumers on how to use credit wisely, especially credit cards. Also, basic banking skills such as balancing a bank account are lacking in the county. Lastly, help is also needed in establishing down payments for rental units, which has become increasingly difficult for LMI individuals.

## Appendix C: Tables of Performance Data

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### 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: (1) Purchased loans are treated as originations/purchases and 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 MA/assessment area; (2) Partially geocoded loans (loans where no census tract is provided) cannot be broken down by income geographies and, therefore, are only reflected in the Total Loans in Core Tables 2 through 7 and part of Table 13; and (3) Partially geocoded loans are included in the Total Loans and % Bank Loans Column in Core Tables 8 through 12 and part of Table 13. Tables without data are not included in this PE.

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 MA/assessment area. Community development loans to statewide or regional entities or made outside the bank’s assessment area may receive positive CRA consideration. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such loans. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.
- Table 1. Other Products** - Presents the number and dollar amount of any unreported category of loans originated and purchased by the bank over the evaluation period by MA/assessment area. Examples include consumer loans or other data that a bank may provide, at its option, concerning its lending performance. This is a two-page table that lists specific categories.
- 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 Home Mortgage Refinance Loans** - See Table 2.
- Table 5. Geographic Distribution of Multifamily Loans** - Compares the percentage distribution of the number of multifamily loans originated and purchased by the bank in low-, moderate-, middle-, and upper-income geographies to the percentage distribution of multifamily housing units 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 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. Because small business data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 7. 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. Because small farm data are not available for geographic areas smaller than counties, it may be necessary to use geographic areas larger than the bank's assessment area.
- Table 8. 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 MA/assessment area. The table also presents market share information based on the most recent aggregate market data available.
- Table 9. Borrower Distribution of Home Improvement Loans** - See Table 8.
- Table 10. Borrower Distribution of Refinance Loans** - See Table 8.
- Table 11. 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 12. 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 13. 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 MA/assessment area.

**Table 14. Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MA/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.

A bank may receive positive consideration for qualified investments in statewide/regional entities or made outside of the bank's assessment area. See Interagency Q&As \_\_.12 (i) - 5 and - 6 for guidance on when a bank may receive positive CRA consideration for such investments. Refer to the CRA section of the Compliance Policy intranet page for guidance on table placement.

**Table 15. 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 MA/AA. The table also presents data on branch openings and closings in each MA/AA.

**Table 1. Lending Volume**

LENDING VOLUME												
Geography: THE FIRST NATIONAL BANK OF PALMERTON												
Evaluation Period: January 1, 2004 To September 30, 2007												
MA/Assessment Area:	% of Rated Area Loans (#) in MA/AA	Home Mortgage		Small Loans to Businesses		Small Loans to Farms		Community Development Loans**		Total Reported Loans		% of Rated Area Deposits in MA/AA***
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$(000's)	
<b>Full Review:</b>												
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	55.75	918	61,901	433	50,103			1	364	1,352	112,368	52.96
Non-MSA – Monroe County	44.25	853	50,078	220	25,478			0	0	1,073	75,556	47.04

\* Loan Data as of September 30, 2007. Rated area refers to the state.

\*\* The evaluation period for Community Development Loans is May 17, 2005 to February 11, 2008..

\*\*\* Deposit Data as of June 30, 2007. Rated Area refers to the state.

**Table 2. Geographic Distribution of Home Purchase Loans**

Geographic Distribution: HOME PURCHASE												Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007																
MA/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	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	169	64.02	0.00	0.00	11.49	28.99	69.97	69.82	18.53	1.18	0.74	0.00	0.71	0.94	0.09	
Non-MSA – Monroe County	95	35.98	0.00	0.00	0.00	0.00	33.63	44.21	66.37	55.79	0.38	0.00	0.00	0.35	0.41	

\* Based on 2006 Peer Mortgage Data: Eastern Region.

\*\* Home purchase loans originated and purchased in the MA/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 2000 Census information.

**Table 3. Geographic Distribution of Home Improvement Loans**

Geographic Distribution: HOME IMPROVEMENT												Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007																
MA/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	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	277	44.46	0.00	0.00	11.49	19.86	69.97	78.34	18.53	1.81	2.81	0.00	2.80	3.43	0.24	
Non-MSA – Monroe County	346	55.54	0.00	0.00	0.00	0.00	33.63	38.44	66.37	61.56	9.05	0.00	0.00	9.63	8.74	

\* Based on 2006 Peer Mortgage Data: Eastern Region.

\*\* Home improvement loans originated and purchased in the MA/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 number of owner occupied housing units in the area based on 2000 Census information.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loans**

Geographic Distribution: HOME MORTGAGE REFINANCE												Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007																
MA/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	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	466	53.14	0.00	0.00	11.49	25.97	69.97	72.53	18.53	1.50	1.68	0.00	1.97	1.94	0.33	
Non-MSA – Monroe County	411	46.86	0.00	0.00	0.00	0.00	33.63	37.23	66.37	62.77	1.44	0.00	0.00	1.62	1.31	

\* Based on 2006 Peer Mortgage Data: Eastern Region.

\*\* Home mortgage refinance loans originated and purchased in the MA/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 number of owner occupied housing units in the area based on 2000 Census information.

**Table 6. Geographic Distribution of Small Loans to Businesses**

Geographic Distribution: SMALL LOANS TO BUSINESSES												Geography: THE FIRST NATIONAL BANK OF PALMERTON					
Evaluation Period: January 1, 2004 To September 30, 2007																	
MA/Assessment Area:	Total Small Business Loans		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	% of Businesses***	% BANK Loans	Overall	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	433	66.31	0.00	0.00	12.64	14.09	65.20	67.90	22.16	18.01	0.58	0.39	0.38	0.74	0.51		
Non-MSA – Monroe County	220	33.69	0.00	0.00	0.00	0.00	44.27	46.36	55.73	53.64	0.90	0.00	0.00	1.32	0.81		

\* Based on 2006 Peer Small Business Data: US and PR

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

\*\*\* Source Data - Dun and Bradstreet (Year).

**Table 8. Borrower Distribution of Home Purchase Loans**

Borrower Distribution: HOME PURCHASE												Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007																
MA/Assessment Area:	Total Home Purchase Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share					
	#	% of Total**	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	% Families***	% BANK Loans****	Over all	Low	Mod	Mid	Upp	
<b>Full Review:</b>																
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	169	64.02	16.81	7.98	20.63	23.31	25.52	25.15	37.03	43.56	0.84	1.08	1.20	0.63	0.79	
Non-MSA – Monroe County	95	35.98	12.72	4.30	14.39	15.05	19.97	27.96	52.92	52.69	0.46	1.96	1.21	0.41	0.39	

\* Based on 2006 Peer Mortgage Data: Eastern Region.

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

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for [Percentage] of loans originated and purchased by Bank.

**Table 9. Borrower Distribution of Home Improvement Loans**

Borrower Distribution: HOME IMPROVEMENT												Geography: THE FIRST NATIONAL BANK OF PALMERTON					
Evaluation Period: January 1, 2004 To September 30, 2007																	
MA/Assessment Area:	Total Home Improvement Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share						
	#	% of Total**	% Families***	% BANK**** Loans	% Families***	% BANK**** Loans	% Families***	% BANK**** Loans	% Families***	% BANK**** Loans	% Families***	% BANK**** Loans	Over all	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	277	44.46	16.81	7.06	20.63	24.54	25.52	33.46	37.03	34.94	2.76	2.58	3.06	3.13	2.38		
Non-MSA – Monroe County	346	55.54	12.72	3.80	14.39	15.20	19.97	26.90	52.92	54.09	9.27	11.90	8.87	9.24	9.20		

\* Based on 2006 Peer Mortgage Data: Eastern Region.

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

\*\*\* Percentage of Families is based on the 2000 Census information.

\*\*\*\* As a percentage of loans with borrower income information available. No information was available for [Percentage] of loans originated and purchased by Bank.

**Table 10. Borrower Distribution of Home Mortgage Refinance Loans**

Borrower Distribution: HOME MORTGAGE REFINANCE															Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007																			
MA/Assessment Area:	Total Home Mortgage Refinance Loans		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Market Share <sup>*</sup>								
	#	% of Total <sup>**</sup>	% Families <sup>***</sup>	% BANK <sup>****</sup> Loans	% Families <sup>***</sup>	% BANK <sup>****</sup> Loans	% Families <sup>***</sup>	% BANK <sup>****</sup> Loans	% Families <sup>***</sup>	% BANK <sup>****</sup> Loans	Over all	Low	Mod	Mid	Upp				
<b>Full Review:</b>																			
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	466	53.14	16.81	8.55	20.63	27.19	25.52	32.89	37.03	31.36	1.93	1.97	2.22	2.04	1.66				
Non-MSA – Monroe County	411	46.86	12.72	4.26	14.39	15.79	19.97	29.32	52.92	50.63	1.71	4.79	3.15	1.52	1.43				

<sup>\*</sup> Based on 2006 Peer Mortgage Data: Eastern Region.

<sup>\*\*</sup> Home mortgage refinance loans originated and purchased in the MA/AA as a percentage of all home mortgage refinance loans originated and purchased in the rated area.

<sup>\*\*\*</sup> Percentage of Families is based on the 2000 Census information.

<sup>\*\*\*\*</sup> As a percentage of loans with borrower income information available. No information was available for [Percentage] of loans originated and purchased by Bank.

**Table 11. Borrower Distribution of Small Loans to Businesses**

Borrower Distribution: SMALL LOANS TO BUSINESSES					Geography: THE FIRST NATIONAL BANK OF PALMERTON				
Evaluation Period: January 1, 2004 To September 30, 2007									
MA/Assessment Area:	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
<b>Full Review:</b>									
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	433	66.31	70.45	70.44	67.44	22.17	10.39	0.58	0.83
Non-MSA – Monroe County	220	33.69	71.86	79.09	72.27	15.00	12.73	0.90	1.77

\* Based on [Year] Peer Small Business Data: US.

\*\* Small loans to businesses originated and purchased in the MA/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 (Source D&B - Year).

\*\*\*\* 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 [Percentage] of small loans to businesses originated and purchased by the Bank.

**Table 14. Qualified Investments**

QUALIFIED INVESTMENTS		Geography: THE FIRST NATIONAL BANK OF PALMERTON							
Evaluation Period: May 17, 2005 to February 11, 2008									
MA/Assessment Area:	Prior Period Investments		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$(000's)	#	\$(000's)	#	\$(000's)	% of Total	#	\$(000's)
<b>Full Review:</b>									
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	0	0	35	1,023	35	1,023	84.76	0	0
Non-MSA – Monroe County	0	0	28	184	28	184	15.24	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 institution's financial reporting system.

**Table 15. Distribution of Branch Delivery System and Branch Openings/Closings**

DISTRIBUTION OF BRANCH DELIVERY SYSTEM AND BRANCH OPENINGS/CLOSINGS THE FIRST NATIONAL BANK OF PALMERTON																	
Evaluation Period: May 17, 2005 to February 11, 2008																	
MA/Assessment Area:	Deposits	Branches						Branch Openings/Closings						Population			
	% of Rated Area Deposits in AA	# of BANK Branches	% of Rated Area Branches in AA	Location of Branches by Income of Geographies (%)				# of Branch Openings	# of Branch Closings	Net change in Location of Branches (+ or -)				% of Population within Each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<b>Full Review:</b>																	
Allentown-Bethlehem-Easton, PA-NJ MSA 10900	52.96	5	55.56	0.00	40.00	60.00	0.00	0	0	0	0	0	0	0.00	12.12	69.21	18.67
Non-MSA – Monroe County	47.04	4	44.44	0.00	0.00	50.00	50.00	0	0	0	0	0	0	0.00	0.00	37.16	62.84