



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**May 23, 2007**

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

**The Neffs National Bank  
Charter Number 12471**

**5629 Pennsylvania Route 873  
Neffs, PA 18065**

**Office of the Comptroller of the Currency  
Northern Pennsylvania Field Office  
60 Public Square, Suite 602  
Wilkes Barre, Pa. 18701**

**NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

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

- The loan-to-deposit ratio meets standards for satisfactory performance;
- A substantial majority of the bank's loans are originated in its assessment area (AA);
- The bank has had no consumer complaints regarding its community reinvestment performance; and
- The bank's record of lending to borrowers of different incomes meets the standard for satisfactory performance.

### **DESCRIPTION OF INSTITUTION**

The Neffs National Bank (NNB) is a \$222 million intrastate community bank founded in 1923, with its main office and headquarters in Neffs, Pennsylvania. Neffs is located in Lehigh County in eastern Pennsylvania, northwest of the Allentown metropolitan area. NNB is a wholly owned subsidiary of Neffs Bancorp, Inc. This holding company has no other subsidiaries or affiliates.

The bank operates a full service office from its one location in Neffs. The bank also has two ATMs and five drive-up facilities located at this site. This office is located in a middle-income geography. The bank's website offers information on branch hours of service and bank products. The bank also maintains a 24-hour telephone banking system for deposit and transaction verifications as well as transfers between accounts. NNB does not have any legal or financial condition restrictions that would impede their ability to help meet the credit needs of the community.

As of March 31, 2007 NNB reported \$89 million in net loans and \$179 million in total deposits. Net loans represented 41% of total assets. The bank's loan portfolio consists of residential real estate loans (64%), consumer loans (8%), and commercial loans (28%). The primary lending product is residential mortgage loans, which is a primary business focus of the bank. Net Tier 1 Capital was \$42 million as of that same date.

According to the June 30, 2006 FDIC Summary of Deposits Market Share Report, NNB was ranked 20<sup>th</sup> out of 37 institutions in the Allentown-Bethlehem-Easton, PA MSA with 1.34% of deposits. Wachovia Bank, N.A. (formerly First Union National Bank) was ranked first with 50 offices in the MSA, and 24.01% of the deposits. Other financial institutions include PNC Bank, in second place, with 34 offices and 12.07% of the deposits, and Keystone Nazareth Bank and Trust Co., ranked third, with 38 offices and 11.27% of the deposits.

The evaluation period for the Lending Test for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) is from January 1, 2005 through March 31, 2007.

NNB's last Public Evaluation (PE) was dated March 7, 2003 and the overall CRA rating assigned was **Satisfactory**. Since the previous PE, NNB has not closed or opened any branches.

## **DESCRIPTION OF AA (Allentown, Bethlehem Easton, MSA)**

NNB has identified 19 census tracts (CTs) in the Allentown-Bethlehem-Easton, PA MSA 10900 (ABE MSA) as its AA. Eleven of the CTs are in Lehigh County, where the bank is headquartered, and the other eight are in Northampton County. This AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. These tracts are located in a mostly rural, but rapidly developing area. The urbanized Lehigh Valley is approximately 12 miles south of Neffs, and the bank's AA is becoming the home of many commuters who work in the Allentown and Bethlehem areas, as well as in New Jersey, Philadelphia, and New York City.

Of the 19 CTs in the AA, 14 are middle-income (74%), and 4 are upper-income (21%) and 1 is moderate-income (5%). There are no low-income tracts in the AA. The total population in the AA was 99,423 as of the 2000 U.S. Census. The unemployment rate as of March 31, 2007 in the ABE MSA was 4.2%. This rate equals the 4.2% unemployment rate for the state of Pennsylvania. Major employers in the bank's MSA include Air Products & Chemicals, Inc., Lehigh University, Northampton County, local hospitals, and local school districts.

The weighted average of median cost of housing in the AA is \$128.8 thousand. The Updated Median Family Income for 2007 is \$65,900. The percentage of households below the poverty level is 5%. The AA's population is comprised of 28,427 families with the following family income distribution: 14% are low-income, 18% are moderate-income, 24% are middle-income, and 44% are upper-income.

In 2005, 312 lenders originated HMDA loans in the AA, according to HMDA Peer Mortgage Data. NNB was ranked 22nd in the AA with a market share of 1.13%. Wachovia Bank, N.A. (formerly First Union National Bank) was ranked first with a market share of 8%. Other competitors consisted of large national banks and mortgage companies, large regional banks, local community banks, and mortgage brokers with nationwide sources of funding.

A community contact was made with the representative of a local religious institution. The contact could not identify unmet credit needs, as financial institutions were perceived as being able to meet the various credit needs in the community.

Community development opportunities in the AA are very limited, as competition for these types of investments is very strong. In the ABE MSA most of the development opportunities are in the Lehigh Valley area.

Please refer to the table below for a detailed breakdown of the AA Census tracts:

Designation	#of Census Tracts	% of Total Tracts
Low Income	0	0%
Moderate Income	1	5%
Middle Income	14	74%
Upper Income	4	21%
Not Applicable	0	0%
Total	19	100%

**Source: 2000 Census**

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

The evaluation period covered lending activity for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2005 through March 31, 2007. These loans were the only products reviewed due to the business focus of the bank, and the large concentration of home mortgage loans in the loan portfolio.

### **Loan-to-Deposit Ratio**

NNB's loan-to-deposit ratio meets the standard for satisfactory performance. The bank's average loan-to-deposit ratio for the prior 17 quarters is 46%, ranging from 44.74% to 50.46%. This ratio is less than the average quarterly ratios of similarly situated banks in a peer group of banks of similar asset size in Pennsylvania. The custom peer average was 73.98%, with average ratios during the period ranging from 70.77% to 78.01%. NNB's lower ratio is due to a decline in loan balances (-4.35%) and a significant increase in deposits (17.29%) during the prior evaluation period. Since that time the bank has managed to maintain deposit account balances while loan growth remained modest. During the current evaluation period, from March 31, 2003 through March 31, 2007, deposits at NNB increased by 17% while net loans increased 30% thus only slightly improving the existing net loan to deposit ratio.

### **Lending in Assessment Area**

A substantial majority of the home mortgage loans originated during the evaluation period were within the AA. NNB exceeds the standard for satisfactory performance for lending in the AA. An analysis of the HMDA data disclosed that 74% of the loans were originated in the AA. The following table is an analysis of the distribution of home mortgage loans.

<b>HOME MORTGAGE LOANS ORIGINATED DURING EVALUATION PERIOD JANUARY 1, 2005 THROUGH MARCH 31, 2007</b>
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	<i>INSIDE ASSESSMENT AREA</i>	<i>OUTSIDE ASSESSMENT AREA</i>
	<b># Loans</b>	<b># Loans</b>
<b>Home Purchase Loans</b>	52	33
<b>Home Refinance Loans</b>	64	17
<b>Home Improvement Loans</b>	97	26
<b>Multi-family</b>	1	0
<b>Total Loans</b>	214	76
<b>Percentage</b>	<b>74%</b>	<b>26%</b>

Source: 2005-2007 HMDA-LAR

### **Lending to Borrowers of Different Incomes**

NNB's record of lending to borrowers of different incomes exceeds the standard for satisfactory performance. The level of home mortgage loans originated to low-income borrowers is slightly less than the percentage of low-income families in the AA. However, when considering the affordability of housing in the ABE MSA, this performance is satisfactory. The median cost of housing in the ABE MSA is \$128.8 thousand, based on 2000 census data. The HUD updated median family income for 2007 is \$65,500. This means that a low-income person earns less than \$32,750. Based on these statistics, it would be difficult for a low-income individual to purchase housing in the AA.

The percentage of loans made to moderate-income borrowers significantly exceeds the percentage of moderate-income families in the MSA. Considering the affordability of housing in the ABE MSA, this performance is excellent. The HUD updated median family income for 2007 is \$65,500. This means that a moderate-income person earns less than \$52,400. Based on these statistics, it would also be difficult for a moderate-income individual to purchase housing in the AA.

Also, in 2005, of the 312 lenders in the AA, NNB was ranked 22nd, with a market share of 1.18%. Other home mortgage lenders included Wachovia Bank N.A. (ranked first with an 8% market share), Countrywide Home Loans, (ranked second with a 7.26% market share), and Keystone Nazareth Bank & Trust (ranked third with a 5.63% market share).

Please refer to the following table for borrower distribution of home mortgage loans in the ABE MSA AA.

<b>Borrower Distribution of Home Mortgage Loans in ABE MSA AA</b>			
<b>The Neffs National Bank</b>			
<b>2005-2007</b>			
<b>Income Level</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>Income Level of Families in AA</b>
<b>Low</b>	26	12%	14%
<b>Moderate</b>	52	25%	18%
<b>Middle</b>	67	31%	24%
<b>Upper</b>	67	31%	44%
<b>Income NA</b>	2	1%	NA
<b>Total</b>	<b>214</b>	<b>100%</b>	<b>100%</b>

Source: 2005-2007 HMDA-LAR/2000 Census data

### **Geographic Distribution of Loans**

The geographic distribution of loans in the AA reflects a reasonable dispersion and meets the standards for satisfactory performance. Based upon the 2000 Census Data, there are no low-income census tracts in the AA. There was one moderate-income census tract, fourteen middle-income census tracts, and four upper-income tracts. During this evaluation period, the bank extended no loans in the one (1) moderate-income level tract, one hundred forty-seven (47) loans in the middle-income tracts and sixty-seven (67) loans in the upper-income tracts.

Considering, the single moderate-income tract is located in the western portion of Northampton County and consists of only a portion of the borough of Northampton with a total population of 5,438 (accordingly to the 2000 US Census), and a total of 2,409 housing units available, (1,514 are owner occupied). Therefore, lending opportunities in this geography are very limited. Additionally, mortgage lending competition in this section of the AA is significant, with NNB being one of 140 different mortgage lenders operating within this CT.

Until the OMB change which resulted from the 2000 census this CT was a middle-income tract. The banks market share for home loans in this census tract during the current evaluation period is zero. Overall, mortgage lending competition for NNB in the entire AA is significant with 311 other mortgage lenders competing.

Please refer to the following table for geographic distribution of home mortgage loans in the MSA AA.

<b>Geographic Distribution of Home Mortgage Loans in the AA</b>	
<b>The Neffs National Bank</b>	

<b>2005-2007</b>			
<b>Census Tract</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>% of Owner-Occupied Units</b>
<b>Low</b>	0	0%	0%
<b>Moderate</b>	0	0%	5%
<b>Middle</b>	147	69%	69%
<b>Upper</b>	67	31%	26%
<b>Total</b>	<b>214</b>	<b>100%</b>	<b>100%</b>

Source: 2005-2007 HMDA-LAR/2000 Census Data

### **Responses 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**

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