



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

Public Disclosure

August 3, 1998

Community Reinvestment Act Performance Evaluation

**Nazareth National Bank and Trust Company
Charter Number 5077**

**76 South Main Street
Nazareth, Pennsylvania 18064**

**Office of the Comptroller of the Currency
Northern Pennsylvania Field Office
100 Hazle Street, Suite 202
Wilkes-Barre, Pennsylvania 18702**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Nazareth National Bank and Trust Company** prepared by **the Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **August 3, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated **Satisfactory**.

Factors supporting the bank's overall rating include:

- A good level of lending in response to the community's credit needs;
- An excellent level of lending within the assessment area(s);
- A reasonable geographic distribution of HMDA and small business loans;
- An acceptable level of lending to low- and moderate-income borrowers;
- An excellent level of lending to small businesses;
- A good level of community development lending;
- Innovative products are limited, but the level of flexible products is good;
- A good level of investments given the bank's financial size and opportunities within the assessment area(s); and,
- A good level of services, including an excellent level of community development services.

The following table indicates the performance level of **Nazareth National Bank and Trust Company** with respect to the lending, investment, and service tests.

Performance Levels	Nazareth National Bank and Trust Company Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory		X	X
Low Satisfactory	X		
Needs to Improve			
Substantial Noncompliance			

*Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of Institution

Nazareth National Bank and Trust Company (NNB) was founded in 1897 and is headquartered in Nazareth, Pennsylvania. The bank is wholly owned by First Colonial Group, Inc., a one-bank holding company with total assets of \$355 million headquartered in Nazareth, Pennsylvania. As of June 30, 1998, NNB's total assets were \$350 million, gross loans were \$220 million, and total deposits were \$292 million. NNB is well positioned to help meet the credit needs of the bank's assessment area. As a percentage of gross loans, 79% were real estate loans (57% residential real estate and 22% commercial real estate), 16% were consumer loans, and 5% were commercial loans. The bank offers a full range of loan and deposit services.

NNB has thirteen branch offices. Nine are in Northampton County, three are in Monroe County, and one is in Lehigh County, Pennsylvania. All of the branches offer full services, and each provides 24-hour ATM access, except the main office. Saturday morning lobby hours are offered at six branches, including Forks and Northampton Crossing branches in Easton, the Pointe North branch in Bethlehem, the Stroudsburg branch in Stroudsburg, the East Stroudsburg branch in East Stroudsburg, and the Airport Road branch in Allentown, Pennsylvania. Sunday lobby hours are offered at the Airport Road, Northampton Crossings and East Stroudsburg branches located in area supermarkets. Separate ATM access is provided at the Bethlehem Business Park and Fountain Hill in Bethlehem, and at Northampton Crossings in Easton. NNB has no operating subsidiaries. More information regarding the bank can be obtained through their website. The website is strictly informational and no transactions may be processed.

There is strong competition from other community and regional banks, thrifts, credit unions, and non-financial institutions in the NNB's assessment area. Market share data for 1997 indicates that there are more than 25 financial institutions serving the assessment area designated by NNB. NNB has no financial or legal impediments that would prevent the institution from helping to meet the credit needs of the assessment area.

Description of Assessment Area(s)

Nazareth National Bank operates offices in two different assessment areas (AAs). One AA consists of all the census tracts (CTs) in Northampton and Lehigh Counties in the Allentown/Bethlehem/Easton Metropolitan Statistical Area (MSA #0240). The other AA consists of all block numbering areas (BNAs) in Monroe County, a non-MSA area. The AAs comply with CRA and do not arbitrarily exclude low- or moderate-income areas (LMI). LMI is referred to throughout this document to describe low- and moderate-income individuals and geographies.

Based on 1990 Census information for the combined AA, the population is 634 thousand. The weighted average median housing cost is \$105 thousand and the weighted average median year built is 1960. The updated median family income is \$46,427 and the census median family income is \$36,711. NNB's market share of deposits for all FDIC-insured institutions in Pennsylvania is 0.17%, as of June 30, 1997.

The non-MSA AA, Monroe County, is the center of the Pocono Mountains area. Population in this AA is 96 thousand. The weighted average median housing cost is \$116 thousand and the weighted average median year built is 1974. The non-MSA updated median family income is \$35,200 and the non-MSA census median family income is \$28,934. NNB's market share of deposits for all FDIC-insured institutions in Monroe County is 2.34%. Major employers in the area include: Tobyhanna Army Depot, Resorts USA Inc., Roadway Express, Pasteur Merieux Connaught, and the Commonwealth of Pennsylvania.

Please refer to the MSA Conclusions section at the end of this report for a description of the MSA AA.

The total AA is comprised primarily of light industry, small businesses, and farms. The area economy is considered stable. As of June 30, 1998, the Pennsylvania state unemployment rate was 4.3%, according to the U.S. Department of Labor. The unemployment rate in the MSA was 4.4% as of that date. Major employment sectors are the manufacturing, retail trade, and services industries.

The table below reflects the breakdown of census tracts and block numbering areas in the combined AAs.

COMBINED ASSESSMENT AREA DEMOGRAPHICS		
Designation	# Census Tracts / BNAs	% of Total Tracts/BNAs
Low	4	3
Moderate	17	11
Middle	91	62
Upper	33	22
NA	3	2
Total	148	100

Determination of Community Credit Needs

Community Contacts

Two community groups were contacted during this CRA examination. Both groups identified a need for housing loans (including multi-family) and a need for small business loans. Also identified was a need for better banking services and education for low- and moderate- income individuals. Management and the Board identified similar credit needs for the AAs.

Conclusions with Respect to Performance Tests

Scope of Review

This review covered the period from January 1, 1997 to June 30, 1998 for all Home Mortgage Disclosure Act (HMDA) and small business loans. The review of community development loans, investments, and services covered the period from July 15, 1996 to June 30, 1998. All dollar amounts listed in the tables within this report are in thousands, unless otherwise indicated.

LENDING TEST

Performance Criteria

Lending Activity

NNB's lending levels and patterns reflect a good response to the credit needs in the AAs. The lending focus is in HMDA reportable residential lending 57%, commercial real estate 22%, consumer 16%, and commercial 5%. Management is involved with several area

community groups. The paragraphs and tables below more fully describe performance and activities within the AAs.

Lending Concentration within the Assessment Area

The following table reflects NNB’s lending within the AAs as a percentage of all loans originated as HMDA or small business reportable. The table reflects an excellent level of lending within the AAs for both HMDA and small business loans.

HMDA and Small Business/Small Farm Loan Originations within the AAs for calendar year 1997 and year-to-date 1998								
Loan Type	1997				YTD 1998			
	# Loans	%	\$ Amt	%	# Loans	%	\$ Amt	%
HMDA	577	95	43,310	93	303	97	25,636	98
Small Business & Small Farms	107	97	6,633	97	27	100	2,664	100
Total	684	95	49,943	94	330	98	28,300	98

Geographic Distribution

The following table depicts NNB’s lending patterns throughout the AAs based on the level of income for each CT and BNA, compared to owner-occupied housing within those same areas. The level of lending in low-income CTs/BNAs is reasonable for both 1997 and 1998 given that only one percent of the households in low-income tracts is owner-occupied. Lending levels in moderate-income tracts require management’s attention; a plan has been formulated to increase lending to individuals residing in moderate-income census tracts.

Geographic Distribution of HMDA Loans					
Census Tracts	1997		YTD 1998		% Owner-Occupied Households in AA
	# Loans/%	\$ Amt/%	# Loans/%	\$ Amt/%	
Low	1 / 0	108 / 0	2 / 1	68 / 0	1
Moderate	10 / 2	660 / 2	8 / 3	159 / 1	6
Middle	321 / 57	21,202 / 49	167 / 55	11,810 / 46	63
Upper	245 / 41	21,340 / 49	126 / 42	13,599 / 53	30
Total	577 / 100	43,310 / 100	303 / 100	25,636 / 100	100

In 1997, NNB received 761 HMDA applications. Disposition of the 761 applications is as follows: 609 originated, 3 approved but not accepted, 107 denied, and 42 withdrawn or incomplete. NNB's overall denial rate, i.e. total denials to total applications, is 14%. There were no denied applicants who lived in a low-income tracts. Denials to applicants who lived in moderate-income tracts was 7% (total denied applicants living in a moderate-income CTs/BNAs to total denials). There was only one withdrawn/incomplete application from an applicant in a low-income tract and none to moderate-income tracts.

Market share data for 1997 indicates that NNB has an overall market share of 2.98% based on originations in the CTs/BNAs where it operates. NNB's market share in low- and moderate-income tracts is 0.69% and 1.04%, respectively.

Overall, the geographic distribution of HMDA loans is acceptable due to:

- ▶ management's commitment to reach out to individuals residing in moderate-income tracts;
- ▶ an improving percentage of loans to borrowers in LMI tracts;
- ▶ the high level of originations and overall low denial rate, including low denials to those individuals residing in moderate-income tracts;
- ▶ strong competition within the AAs;
- ▶ positive comments from community groups regarding management's willingness to work with LMI individuals; and

- ▶ the bank’s total asset size and comparatively small overall market share.

The following table reflects the distribution of small business loans to the percentage of businesses/farms in each CT or BNA. The distribution of small businesses is reasonable in both low- and moderate-income CTs and BNAs.

Geographic Distribution of Small Business Loans					
Census Tract	1997		YTD 1998		% Small Businesses/ Small Farms in AAs
	# / %	\$ / %	# / %	\$ / %	
Low	0 / 0	0 / 0	0 / 0	0 / 0	1
Moderate	12 / 11	769 / 12	3 / 11	114 / 4	9
Middle	68 / 64	4,191 / 63	16 / 59	1,105 / 42	61
Upper	27 / 25	1,673 / 25	8 / 30	1,445 / 54	29
Total	107 / 100	6,633 / 100	27 / 100	2,664 / 100	100

Note: NNB did not originate any farm loans in 1998. Farm credit needs are served by government agencies, such as the Farmers Credit Administration.

The level of lending to small businesses has declined from 107 originations totaling \$6,633 thousand in 1997, to 27 originations totaling \$2,664 thousand through the first six months of 1998. On an annualized basis, this represents a decline, in total dollars, of 20%. The primary reason for this decline is a major reorganization process of the commercial loan department to improve overall lending practices. The senior loan officer, who was hired in September 1997, initiated the reorganization in the fourth quarter of 1997. The goal is to better understand the nature of the bank’s business and strengthen administrative practices to operate more efficiently. Management estimates that this action has taken 20% of the time away from all of the commercial lenders.

A second reason for the decline in small business loans is that one of the bank’s five commercial lenders resigned in the beginning of 1998 and was not replaced for three months. The remaining four loan officers worked to maintain the customer base and little new business was generated. A final reason for the decline in small business lending is strong competition in the AAs.

Small business loans originated in 1998 include three loan participations totaling \$26 thousand. These three loans were made in conjunction with the Bethlehem Economic Development Corporation (BEDCO). The purpose of the loans was for community development.

Borrower Characteristics

The following table depicts lending patterns based on the borrower's income level in comparison to the percentage of families with the AAs. NNB's lending to low- and moderate-income borrowers requires management's attention specifically in the non-MSA AA of Monroe County, where the bank's branches are relatively new. Management has formulated a plan to reach out to LMI individuals.

Borrower Distribution of HMDA Loans by Income					
INCOME	1997		YTD 1998		% of Families within AAs
	# Lns / %	\$ Amt / %	# Lns / %	\$ Amt / %	
Low	26 / 5	368 / 1	24 / 8	623 / 2	15
Moderate	74 / 13	2,121 / 5	39 / 13	1,387 / 5	18
Middle	129 / 22	6,675 / 15	78 / 26	3,798 / 15	26
Upper	340 / 59	33,525 / 78	157 / 52	19,459 / 76	41
NA	8 / 1	621 / 1	5 / 1	369 / 2	NA
Total	577 / 100	43,310 / 100	303 / 100	25,636 / 100	100

As noted earlier, NNB received 761 HMDA applications in 1997. Disposition of the applications is as follows: 609 were originated; 3 were approved but not accepted; 107 were denied; and, 42 were withdrawn/incomplete. NNB's overall denial rate, (total denials to total applications), is 14%. The percentage of denials to low-income applicants was 12% (total low-income denied applicants to total denials) and to moderate-income applicants 23% (total moderate-income denied applicants to total denials). There were four low-income applicants and six moderate-income applicants with withdrawn/incomplete applications representing 10% and 14%, respectively, to total withdrawn/incomplete applications.

Market share data for 1997 indicates that NNB had an overall 2.98% market share of originations in the CTs/BNAs where it operates. NNB's market share of low- and moderate-income individuals is 2.22% and 2.18%, respectively.

The overall borrower distribution of HMDA loans is acceptable due to:

- ▶ management's commitment to lend to LMI individuals;

- ▶ an improving trend in lending to low-income individuals through the first six months of 1998;
- ▶ the high level of originations and overall low denial rate, including denials to LMI individuals;
- ▶ strong competition within the AAs;
- ▶ positive comments from community groups regarding management's willingness to work with LMI individuals; and
- ▶ the bank's total asset size and comparatively small overall market share.

NNB's pattern of lending to small businesses is excellent. The majority of loans were originated with proceeds of \$250 thousand or less. The following two tables reflect the distribution of lending to small businesses (those businesses with revenues of \$1 million or less) and the distribution of small business credits by size of loan.

Distribution of Small Business Loans by Revenue within AAs				
Business Revenue Size	1997		YTD 1998	
	# Loans / %	\$ Amt. / %	# Loans / %	\$ Amt. / %
0 < \$1 million	107 / 97	6,633 / 92	27 / 100	2,640 / 100
> \$1 million	3 / 3	570 / 8	0 / 0	0 / 0
Total	110 / 100	7,203 / 100	27 / 100	2,640 / 100

Distribution of Small Business Loans by Loan Size				
Loan Size	1997		1998	
	# / %	\$ Amt. / %	# / %	\$ Amt. / %
<= \$100	91 / 85	3,265 / 49	21 / 78	735 / 29
> \$100 <= \$250	14 / 13	2,418 / 37	2 / 7	270 / 10
> \$250 <= \$1,000	2 / 2	950 / 14	4 / 15	1,635 / 61
Total	107 / 100	6,633 / 100	27 / 100	2,640 / 100

Note: NNB did not originate any farm loans in 1997 or 1998.

Sixty-seven percent of businesses within the AAs have sales of \$500 thousand or less; 7% have sales of \$500 thousand to \$1 million; 9% have sales of \$1 million to \$24 million; and those businesses reporting NA for sales are 17%. Within the AAs, total businesses approximate 23,000. NNB's lending pattern to businesses is consistent with the demographics of the AAs, i.e. a high percentage of lending to small businesses versus a large volume of small businesses operating within the AAs.

The decline in the level of small business lending in 1997 and the first six months of 1998 is discussed under the **Geographic Distribution** section of this Public Evaluation.

Community Development Lending

NNB has a high level of community development lending in relation to its overall asset size. Opportunities for community development lending within the AAs are good.

Management has been involved in two community development projects during the evaluation period. The first is the Valley Housing Development Corporation. (Please refer to the **Community Development Services** comment for information regarding the Valley Housing Development Corporation). There were three loans outstanding during the evaluation period and one loan is yet to be funded.

Origination Date	Loan Balance	Purpose
8/30/95	\$268,000	low- and moderate-income housing
9/24/97	66,000	low-income mental health housing
9/24/97	106,000	low-income mental health housing
to be booked	108,000	low-income mental health housing

Loans outstanding to the Valley Housing Development Corporation during the evaluation period totaled \$440 thousand.

The second community development loan was a \$200 thousand two-year construction loan, originated September 1996. The purpose of the loan was to develop and construct ten modular homes on land adjacent to a church. The church is located in a middle-income census tract in Easton. However, the project was an affordable joint housing project with Pastor Fred Davis of the Shilo Baptist Church, the City of Easton, and NNB. All of the homes have been sold. NNB financed nine of the ten homes under its Opportunity Mortgage Program. (Please refer to the **Innovative and Flexible Lending Practices** section of this performance Evaluation for information regarding the Opportunity Mortgage Program, a first time home buyers product.)

Innovative or Flexible Lending Practices

NNB offers two home purchase mortgages and a home equity loan product for low- and moderate-income borrowers. The three products are described as follows:

Opportunity Mortgage - This product provides up to 95% financing, with origination and application fees below NNB's normal fees. Debt ratios are lenient in comparison to conventional mortgage loans. This is a first time home buyers program.

Opportunity Mortgage High Loan to Value - This product provides up to 100% financing, with no origination fee and an application fee below NNB's normal fee. Debt ratios are lenient in comparison to conventional mortgages. This is a first time home buyers program.

Opportunity Loan - This product is a home equity loan and allows for 100% financing. Below market interest rates may be obtained with a loan to value of 80% or less. No application fee is charged.

In addition to the mortgage and home equity loan products, NNB began offering the following product to small businesses in 1998:

Business Manager - This program is used to purchase and manage the accounts receivable of commercial customers. Accounts receivable are purchased on a full-recourse basis with a cash collateral reserve required. This product allows small businesses to obtain cash more quickly than collecting the receivables on their own.

INVESTMENT TEST

The level of qualified investments and donations is good. Although investment opportunities exist within the AAs, NNB's asset size may limit some of the investment opportunities available.

NNB invested \$2 million in a statewide Pennsylvania Housing Finance low-cost housing bond. The bond benefits individuals within Lehigh, Northampton, and Monroe counties. The total amount of this bond issue is \$75 million.

Management has invested in a \$5,000 deposit in the Easton Area Neighborhood Center Credit Union. This non-profit organization was founded to serve the minimum banking needs of LMI individuals and neighborhoods.

Qualified donations totaled \$10,000 thus far in 1998, \$15,300 in 1997, and \$12,133 in the second half of 1996. Other contributions that are not CRA qualified donations are made to community groups on a regular basis in response to their general needs.

SERVICE TEST

NNB's delivery systems are reasonably accessible to all portions of their assessment areas. Branch hours are reasonable and convenient to all customers. A list of branch hours is available in the public file. One branch, located in a retirement center, has limited service hours and an ATM. Management has not opened any new locations since July 1996 and no branch offices have been closed. Services are similar at all branches, with two branches located in supermarkets and one in a Wal-Mart. NNB has a total of thirteen community offices and sixteen ATMs. Twelve of the community offices (excluding the retirement center) have extended hours, i.e. after 5 p.m., at least on one day during the week and nine have Saturday hours. Three offices have Sunday hours. Eight of the offices have drive up facilities.

The following chart indicates where branches and banking facilities are located throughout the three counties of the AAs.

DISTRIBUTION OF DELIVERY SYSTEMS (Branches and Remote ATM Facilities)				
Census Tracts	Branches	Non-Branch ATM Facilities	Drive Up Facilities	CTs & BNAs in the AAs
	# / %	# / %	# / %	# / %
Low	0	0	0	4 / 3%
Moderate	1 / 8%	0	1 / 12%	17 / 11%
Middle	7 / 54%	2 / 50%	3 / 38%	91 / 62%
Upper	5 / 38%	2 / 50%	4 / 50%	33 / 22%
NA	---	---	---	3 / 2%
Total	13 / 100%	4 / 100%	8 / 100%	148 / 100%

NNB offers a common set of financial services to all of its customers. Services include a wide range of products including loan, deposit, and trust services designed for both retail and business customers, including small businesses. NNB publishes some customer brochures in Spanish, does some advertising in Spanish, and employs nine Spanish-speaking employees. An automated telephone direct dial access system for customers is available to obtain information regarding their deposit or loan accounts. Customers may also transfer funds from one account to another by using this service. The system is available 24 hours a day, seven days a week.

Community Development Services

NNB provides an excellent level of community development services. Primary services include providing financial expertise to a variety of community service and development organizations through board and committee memberships.

Management was instrumental in establishing the Bethlehem Economic Development Authority Loan Pool by providing personnel to offer credit and management expertise. This is a consortium of banks that share in loan participations to small businesses either located in or planning to locate in the City of Bethlehem. The businesses must be involved in the economic development of the City and in job creation. Much of the focus is currently on the revitalization of Bethlehem's south side, a moderate-income neighborhood. Vice President Stephen Kalamar has served on the Loan Pool since its inception. He currently serves as vice chairman and assists in credit decisions.

Management has played a key role in creating the Easton Economic Development Corporation Loan Pool. The Pool was established to allow banks to share in loan participations to small businesses located in or planning to locate in the City of Easton. The primary purposes of the Pool are to develop vacant or under-utilized properties, and rehabilitate existing structures in the inner City. Commercial Loan Officer Robert Conroy is one of the founders, and currently serves as chairman.

NNB staff members regularly serve as instructors for the Home Ownership Counseling Program (HOCP). This Program, which is sponsored by the Community Action Committee of the Lehigh Valley, is approved by Fannie Mae as a counseling prerequisite for obtaining affordable housing mortgages. Two bank officers have served as speakers at three seminars in the past eighteen months.

Management provides speakers for small business workshops which are offered to the community and sponsored by development groups for the benefit of current and potential small business owners. NNB works with the Center City Ministries in presenting seminars to LMI individuals on establishing and managing personal credit. Center City Ministries assists the homeless and those in transition in developing job skills.

NNB is an active participant in the Home Ownership Outreach Program (HOOP). The program provides second mortgage loans to LMI individuals who qualify to purchase a home under an affordable mortgage loan program at a participating financial institution. Vice President John Cahill serves on the HOOP advisory board which approves these second mortgages.

Management supports and works with the Valley Housing Development Corporation (VHDC), a non-profit organization that was formed to receive and administer funds to provide housing for LMI households. The VHDC also provides transitional housing for LMI individuals leaving homeless shelters and provides low-cost rental housing. Vice President William Lewis is currently the president of the board which approves the projects and disburses the funds.

FAIR LENDING REVIEW

A concurrent fair lending review did not identify any violations of antidiscrimination laws and regulations. NNB's fair lending internal controls, reviews, and training programs are effective.

METROPOLITAN STATISTICAL AREAS

MSA RESULTS

Examination results within the MSA AA are consistent with the overall results for the bank.

Conclusions with Respect to Performance Tests in MSA #0240 - Allentown - Bethlehem - Easton

The MSA AA, Northampton and Lehigh Counties, encompasses the Lehigh Valley area. Population in this MSA is 538 thousand. The weighted average median housing cost is \$102 thousand and the weighted average year built is 1956. The weighted average of the MSA updated median family income is \$47,600 and the census median family income is \$37,523. NNB's market share of deposits for all FDIC-insured institutions in Northampton County is 7.97% and 0.12% in Lehigh County. The following are the top five employers: Lehigh Valley Hospital Center; Air Products and Chemicals Inc.; Lucent Technologies Inc.; County of Lehigh; and, St. Luke's Hospital.

ASSESSMENT AREA DEMOGRAPHICS FOR NORTHAMPTON AND LEHIGH COUNTIES		
Designation	# Census Tracts	% of Total Tracts
Low	4	3
Moderate	17	13
Middle	86	64
Upper	24	18
NA	3	2
Total	134	100

LENDING TEST

Lending Concentration within the Assessment Area

The following table reflects NNB's lending within the MSA AA, compared to the combined AAs. There is a high concentration of lending in the MSA AA, as a majority of the branches and other facilities are in this AA. Further, Lehigh and Northampton Counties represent two of the three counties in which the bank operates.

LOAN ACTIVITY IN THE MSA COMPARED TO THE OVERALL AA IN 1997 & YTD 1998				
Loan Products	#	% of Total AA loans	\$ Amount	% of Total AA loans
HMDA	579	66	39,437	57
Small Businesses	129	96	8,870	95
Total	708	70	48,307	62

Geographic Distribution

The table below depicts NNB's lending patterns throughout the MSA AA based on the level of income for each CT, compared to the owner-occupied housing within those same areas. The level of lending in LMI tracts is similar to the data for the combined AAs. As outlined previously in this Public Evaluation under the evaluation of the combined AAs, lending in LMI tracts is acceptable.

Geographic Distribution of HMDA Loans					
Census Tracts	1997		YTD 1998		% Owner- Occupied Households in AA
	# Loans/%	\$ Amt/%	# Loans/%	\$ Amt/%	
Low	1 / 0	108 / 1	2 / 1	68 / 0	1
Moderate	10 / 3	660 / 3	8 / 4	159 / 1	7
Middle	253 / 70	13,684 / 61	140 / 64	9,288 / 54	69
Upper	96 / 27	7,847 / 35	69 / 31	7,623 / 45	23
Total	360 / 100	22,299 / 100	219 / 100	17,138 / 100	100

The following table reflects the distribution of small business loans to the percentage of businesses/farms in each CT. The distribution of small businesses is reasonable in both low- and moderate-income CTs.

Geographic Distribution of Small Business Loans					
Census Tract	1997		YTD 1998		% Small Businesses/ Small Farms in AA
	# / %	\$ / %	# / %	\$ / %	
Low	0 / 0	0 / 0	0 / 0	0 / 0	2
Moderate	12 / 11	769 / 12	3 / 13	114 / 5	11
Middle	67 / 63	4,141 / 63	16 / 70	1,060 / 47	66
Upper	27 / 26	1,673 / 25	4 / 17	1,068 / 48	21
Total	106 / 100	6,583 / 100	23 / 100	2,242 / 100	100

Note: NNB did not originate any farm loans in 1997 or 1998.

Please refer to comments regarding overall performance under **Geographic Distribution** for a discussion on the decline in lending levels between 1997 and the first six months of 1998.

Borrower Characteristics

The table below depicts NNB's lending patterns based on the borrower's income level, in comparison to the percentage of families within the AA. The level of lending to LMI individuals is reflective of the data for the combined AAs, with some improvement in lending to moderate-income individuals. As outlined previously in this Public Evaluation under the comments for the combined AAs, lending to LMI individuals is acceptable.

Borrower Distribution of HMDA Loans by Income					
INCOME	1997		YTD 1998		% of Families within AA
	# Lns / %	\$ Amt / %	# Lns / %	\$ Amt / %	
Low	23 / 7	303 / 1	22 / 10	578 / 3	16
Moderate	61 / 17	1,841 / 8	36 / 16	1,249 / 7	18
Middle	98 / 27	4,859 / 22	64 / 29	2,830 / 17	27
Upper	170 / 47	14,675 / 66	93 / 43	12,154 / 71	39
NA	8 / 2	621 / 3	4 / 2	327 / 2	NA
Total	360 / 100	22,299 / 100	219 / 100	17,138 / 100	100

NNB's pattern of lending to small businesses is excellent. Further, the majority of loans by size are \$250 thousand or less. The following two tables reflect NNB's distribution of lending to small businesses with revenues of \$1 million or less, and the distribution of small business credits by size of loan.

Distribution of Business Loans by Size within AA				
Business Revenue Size	1997		YTD 1998	
	# Loans / %	\$ Amt. / %	# Loans / %	\$ Amt. / %
0 < \$1 million	106 / 97	6,583 / 92	23 / 100	2,287 / 100
> \$1 million	3 / 3	570 / 8	0 / 0	0 / 0
Total	109 / 100	7,153 / 100	23 / 100	2,287 / 100

Distribution of Small Business Loans by Revenue Size				
Loan Value	1997		YTD 1998	
	# / %	\$ Amt. / %	# / %	\$ Amt. / %
< = \$100	90 / 85	3,215 / 49	18 / 77	682 / 26
> \$100 < = \$250	14 / 13	2,418 / 37	2 / 9	270 / 12
> \$250 < = \$1,000	2 / 2	950 / 14	3 / 14	1,335 / 62
Total	106 / 100	6,583 / 100	23 / 100	2,287 / 100

Note: NNB did not originate any farm loans in 1997 or 1998.

Community Development Lending

Please refer to previous comments on **Community Development Lending**. All community development loans were originated in the MSA AA.

Innovative or Flexible Lending Practices

Refer to previous comments on **Innovative or Flexible Lending Practices**. All of the loan programs discussed in the previous comments are offered within the MSA AA.

INVESTMENT TEST

Contributions to community groups are made on a regular basis in response to their general needs. Qualified donations in the MSA were the same as in the entire AA, with the exception of \$1,000 donated in 1997 outside of the MSA. NNB has committed to various donations throughout 1998 that have not yet been paid to the organizations.

SERVICE TEST

NNB's delivery systems are reasonably accessible to all portions of their MSA. Branch hours are reasonable and convenient to all customers. Ten community offices and thirteen ATMs are in the MSA. Services are similar at all branches. The offices (excluding the retirement center) have extended hours after 5 p.m. at least on one day during the week and five have Saturday hours. Two offices have Sunday hours. Six of the offices have drive up facilities.

The chart below indicates the location of branches and banking facilities throughout the MSA.

DISTRIBUTION OF DELIVERY SYSTEMS IN THE MSA (Branches and Remote ATM Facilities)				
Census Tracts	Branches	Non-Branch ATM Facilities	Drive Up Facilities	CTs & BNAs in the AAs
	# / %	# / %	# / %	# / %
Low	0	0	0	4/3%
Moderate	1/10%	0	1/17%	17/13%
Middle	6/60%	2/50%	2/33%	86/64%
Upper	3/30%	2/50%	3/50%	24/18%
NA	---	---	---	3/2%
Total	10/100%	4/100%	6/100%	134/100%

Community Development Services

NNB provides an excellent level of community development services in the MSA. Primary services include providing financial expertise to a variety of community service and development organizations through board and committee memberships. The Community Development Services described in the AA are the same activities in the MSA.

Scope of Examination

Time Period Reviewed	7/15/96 to 6/30/98		
Financial institution Nazareth National Bank and Trust Company	Products reviewed HMDA, Small Business, Investments and Services		
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Pennsylvania - MSA 0240 Allentown-Bethlehem-Easton	On-site	None	Not Applicable
- Non-MSA Monroe County	On-site	None	Not Applicable