



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

January 02, 2013

### **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

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's record of lending to borrowers of different incomes exceeds the standard for satisfactory performance;
- The bank has had no consumer complaints regarding its community reinvestment performance; and,
- The geographic distribution of loans in the AA reflects a reasonable dispersion and meets the standards for satisfactory performance.

**SCOPE OF EXAMINATION**

The evaluation period covered lending activity for home mortgages reported under the Home Mortgage Disclosure Act (HMDA) from January 1, 2009 through December 30, 2011. 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.

Neffs National Bank's (NNB) primary loan product is home mortgage loans. NNB reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). Prior to this evaluation, we tested the accuracy of NNB's HMDA data. The results of this testing indicated the data was reasonably accurate and could be relied upon. Therefore, we utilized the HMDA data from January 1, 2009 through December 31, 2011 for this evaluation.

**DESCRIPTION OF INSTITUTION**

NNB is a \$286 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, Pennsylvania. 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, as well as Internet and mobile banking with bill pay. 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 its ability to help meet the credit needs of the community.

As of December 31, 2011, NNB reported \$128.8 million in net loans and \$237.5 million in total deposits. Net loans represented 45% of total assets. The bank's loan portfolio consists of residential real estate loans (63.4%), consumer loans (5.2%), and commercial loans (32.1%).

The primary lending product is residential mortgage loans, which is a primary business focus of the bank. Net Tier 1 Capital was \$47.5 million as of that same date.

According to the June 30, 2012 FDIC Summary of Deposits Market Share Report, NNB was ranked 16<sup>th</sup> out of 35 institutions in the Allentown-Bethlehem-Easton, PA Metropolitan Statistical Area (MSA), with 1.69% of deposits. Wells Fargo Bank, National Association was ranked first with 47 offices in the MSA, and 23.22% of the deposits. Other financial institutions include National Penn Bank, in second place, with 38 offices and 11.35% of the deposits, and PNC Bank National Association, ranked third, with 33 offices and 10.36% 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, 2009 through December 30, 2011.

NNB's last Public Evaluation (PE) was dated May 23, 2007. The overall CRA rating assigned was Satisfactory. Since the previous PE, NNB has not closed or opened any branches.

## **DESCRIPTION OF ASSESSMENT AREA(S)**

NNB has identified 25 census tracts (CTs) in the Allentown-Bethlehem-Easton, PA MSA 10900 (ABE MSA) as its AA. Thirteen of the CTs are in Lehigh County, where the bank is headquartered, seven CTs are in Northampton County, and five CT's are located in Carbon 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 still 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 25 CTs in the AA, 18 are middle-income (72%), four are upper-income (16%), and three are moderate-income (12%). There are no low-income tracts in the AA. The total population in the AA was 132,159 as of the 2000 U.S. Census. The unemployment rate in the ABE MSA was 7.9% as of December 2011. This rate is slightly higher than the 7.7% unemployment rate for the state of Pennsylvania during the same time period. Major employers in the bank's MSA include Air Products & Chemicals, Inc., Lehigh Valley Hospital and Health Network, and St. Luke's Hospital and Health Network.

The weighted average of median cost of housing in the AA is \$118,846. The Updated Median Family Income for 2011 is \$72,300. The percentage of households below the poverty level is 5.76%. The AA's population is comprised of 37,662 families with the following family income distribution: 16.59% are low-income, 19.78% are moderate-income, 24.84% are middle-income, and 38.79% are upper-income.

In 2011, 235 lenders originated HMDA loans in the AA, according to HMDA Peer Mortgage Data. NNB was ranked 26th in the AA with a market share of .88%. Wells Fargo Bank, N.A., was ranked first with a market share of 17.49%; J.P. Morgan Chase ranked second with a market share of 7.79%; and Bank of America, N.A. ranked third with a market share of 7.39%. 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 a local realtor. The contact indicated he perceived that financing programs, due to lower incomes, was an ongoing need in this area. The contact also indicated that “there are ample opportunities for community development and other credit related projects for banks to become involved in”. He provided examples of walking trails, civic centers, fire departments, and chambers of commerce in which local financial institutions could participate. The contact specifically mentioned that his opinion of local financial institutions is high. He stated that “these banks have solid reputations and he sends his customers there for financing opportunities knowing they are invested in the community, and will work with customers, whenever possible”. The contact noted that larger institutions with branches in the area could be doing more and giving more money to local projects.

Overall, community development opportunities in the AA are very limited. 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	3	12%
Middle Income	18	72%
Upper Income	4	16%
Not Applicable	0	0%
Total	25	100%

Source: 2000 Census

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### 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 12 quarters is 52.3%, with a range of 51.17% to 54.21%. This ratio is less than the average quarterly ratios of similarly situated banks in a custom peer group of banks of similar asset size operating in the state of Pennsylvania. The custom peer average was 79%, with average ratios during the period ranging from 65.3% to 102.1%. NNB's lower ratio can be attributed to NNB's being located in a much more rural location than the other peer group banks.

## Lending in Assessment Area

A substantial majority of the home mortgage loans originated during the evaluation period were within the bank's AA. NNB exceeds the standard for satisfactory performance for lending in the AA. An analysis of the HMDA data disclosed that 82.7% 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>				
	<b>INSIDE ASSESSMENT AREA</b>		<b>OUTSIDE ASSESSMENT AREA</b>	
	# Loans		# Loans	
Home Purchase Loans	71		18	
Home Refinance Loans	110		23	
Home Improvement Loans	49		7	
Multi-family	0		0	
Total Loans	230		48	
Percentage	82.7%		17.3%	

Source: 2009-20011 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 near the percentage of low-income families in the AA. When considering the affordability of housing in the ABE MSA, this performance is considered satisfactory. The median cost of housing in the ABE MSA is \$118.8 thousand, based on 2000 Census Data. The Housing and Urban Development (HUD) updated median family income for 2011 is \$72,300. This means that a low-income person earns less than \$36,150. 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 2011 is \$72,300. This means that a moderate-income person earns less than \$57,840. Based on these statistics, it would be difficult for a moderate-income individual to purchase housing in the AA. Of the 235 lenders in the AA in 2011, NNB was ranked 26th, with a market share of .88%. Other home mortgage lenders included Wells Fargo Bank, N.A., ranked first with a market share of 17.49%; J.P. Morgan Chase, ranked second with a market share of 7.79%; and Bank of America, N.A., ranked third with a market share of 7.39%.

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>2009-2011</b>			
<b>Income Level</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>Income Level of Families in AA</b>
Low	36	15.64%	16.59%
Moderate	64	27.83%	19.78%
Middle	64	27.83%	24.84%
Upper	66	28.70%	38.79%
Income NA	0	0%	0%
Total	230	100%	100%

Source: 2009-2011 HMDA-LAR/2000 U. S. 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 on the 2000 Census Data, there are no low-income census tracts in the AA. There were three moderate-income census tracts, 18 middle-income census tracts, and four upper-income tracts. During this evaluation period, the bank extended six (6) loans in the three (3) moderate-income level tracts, one hundred ninety-four (194) loans in the middle-income tracts and thirty (30) loans in the upper-income tracts.

One 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 5,348 (accordingly to the 2000 U.S. Census), and a total of 2,409 housing units available (1,536 are owner-occupied). Additionally, mortgage lending competition in this section of the AA is significant, with NNB being one of 69 different mortgage lenders operating within this CT. Therefore, lending opportunities in this geography are very limited.

The other two moderate-income tracts are located in Carbon County and portions of the boroughs of Lehigh, and Palmerton. The borough of Lehigh has a total population of 5,537 and 2,546 housing units (1,304 are owner-occupied). The borough of Palmerton has a total population of 5,248 and 2,365 housing units (1,511 are owner-occupied). Additionally, lending competition in these sections of the AA is significant, with NNB being one of 41 different mortgage lenders operating within the Lehigh CT, and one of 63 mortgage lenders operating within the Palmerton CT. Therefore, lending opportunities in these geographies are also very limited.

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>2009-2011</b>			
<b>Census Tract</b>	<b># of Loans</b>	<b>% of Loans</b>	<b>% of Owner-Occupied Units</b>
Low	0	0%	0%
Moderate	6	2.61%	10.44%
Middle	194	84.35%	68.56%
Upper	30	13.04%	20%
Total	230	100%	100%

Source: 2009-2011 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**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or Federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

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