



INTERMEDIATE SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

November 28, 2011

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The First National Bank and Trust Company of Newtown
Charter Number: 324

State and Centre Streets
Newtown, PA 18940

Office of the Comptroller of the Currency

Philadelphia Field Office
1150 Northbrook Drive Suite 303
Trevose, PA 19053

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 Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The major factors that support this rating include:

- A substantial majority of FNB's primary loan products were originated within the bank's assessment area.
- FNB's distribution of loans represents a reasonable penetration among individuals and geographies of different income levels and businesses of different sizes.
- The bank's loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs.
- FNB's responsiveness to community development needs and opportunities in its assessment area is adequate.

Scope of Examination

First National Bank and Trust Company of Newtown (FNB) was evaluated under the Intermediate Small Bank examination procedures, which include a lending test and a community development (CD) test. The lending test evaluates the bank's record of meeting the credit needs of its assessment area (AA) through its lending activities. The CD test evaluates the bank's responsiveness to CD needs in its AA through CD lending, qualified investments, and community development services.

The lending test for FNB covers its performance from January 1, 2009 through September 30, 2011. The scope of our lending test review did not include small farm or multi-family loans, due to negligible volume of originations. The evaluation period for the CD test is from December 2, 2008 through November 28, 2011. CD investments and services submitted by management were verified to ensure that they met the regulatory definition for community development.

FNB's primary loan products are home mortgage and small business loans. The bank reports data under the requirements of the Home Mortgage Disclosure Act (HMDA). The reported HMDA data was tested and found to be reliable. Therefore, HMDA data was used to evaluate the bank's home mortgage performance. The bank is also a small business loan reporter. The small business loan data was tested and found to be reliable. The data was used to evaluate the bank's small business lending performance.

Description of Institution

FNB is an intrastate community bank with total assets of \$756 million as of September 30, 2011. FNB 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. FNB is one of two subsidiaries of FNB Bancorp, Inc. The other subsidiary is FNB Reality, which currently owns two of the bank’s branches. This subsidiary is not considered in this evaluation, as it does not affect the bank’s capacity for community reinvestment. The holding company has total consolidated assets of \$782 million, as of September 30, 2011. Both FNB and FNB Bancorp, Inc. are located in Newtown, PA. FNB has 12 full service branches equipped with a drive-up and ATM facility, four limited service branches in retirement villages and one branch located in a local school. FNB has not closed any branches since the prior CRA exam but they have opened one branch that is a limited service branch in a local school. This branch was opened in 2011 and is in an upper-income census tract. It does not have an ATM and the customers are limited to the students, parents, and teachers.

The bank serves Bucks County, Pennsylvania. FNB has designated one AA, which is comprised of 109 contiguous census tracts (CTs) located in Central and Lower Bucks County. The AA is part of the Philadelphia MD MSA #37964.

As of September 30, 2011, net loans and leases totaled \$359 million or 48 percent of total assets. Total deposits were \$678 million. Tier one capital as of September 30, 2011 was \$78.4 million. The loan portfolio is broken down as following:

Loan Category	Residential Mortgage Loans	Commercial Real Estate Loans	Commercial Loans	Other
\$ amount (in thousands)	\$132,773	\$191,621	\$19,215	\$23,380
% of loan portfolio	36.18	52.21	5.24	6.37

Numbers as of 9/30/2011

The bank’s primary strategy is to meet the credit needs of the community, originate small business loans, and invest its money back into the immediate community. FNB 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. FNB’s primary competitors include Wells Fargo, TD Bank, Citizens Bank, PNC Bank, and First Savings of Perkasio.

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

FNB was rated “Satisfactory” at its last CRA Performance Evaluation dated December 1, 2008.

Description of Assessment Area(s)

The bank has one AA: Central and Lower Bucks County (Bucks County AA), which is located in Southeastern Pennsylvania and is within the Philadelphia, PA Metropolitan Division (MD), #37964. This MD is part of the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metropolitan Statistical Area (MSA), #37980. This AA meets the requirements of the regulation and does not arbitrarily exclude any low-or moderate-income (LMI) areas.

Here is a summary of some demographic information for the AA:

Demographic Information for the Bucks County AA					
	#	% Low	% Moderate	% Middle	% Upper
Geographies (Census Tracts)	109	0.00	10.09	42.20	47.71
Population by Geography	504,146	0.00	7.67	38.65	53.68
Owner-Occupied Housing by Geography	142,013	0.00	4.92	37.32	57.76
Businesses by Geography	70,570	0.00	6.40	35.13	58.48
Farms by Geography	1,340	0.00	3.96	30.97	65.07
Family Distribution by Income Level	136,289	11.73	14.49	51.69	3.20
Household Distribution by Income Level	183,801	13.86	12.85	17.52	55.77
Census Median Family Income (MFI)		\$56,993	Median Housing Value		\$171,426
HUD-Adjusted MFI: 2011		\$76,200	Families Below the Poverty Level		4.82%
			Unemployment Rate		6.8%*

Source: 2000 U.S. Census Data

* Bucks County 9/11 unemployment rate, not seasonally adjusted

The current local economy for the AA is characterized as stable. In the recent economic downturn, the AA fared better than the national average, as home prices dropped less than nationally and unemployment remained relatively stable. Economic activity in the areas is relatively diverse with services, retail trade, and manufacturing being the primary economic activities. The current unemployment rate for the AA is lower than the national average and the Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA. The area's average employee wages are increasing. Major employers for Bucks County are the following companies: Central Bucks School District, Bucks County, Saint Mary's Medical Center, Healthcare Services, and Northtec LLC.

FNB is located in a highly competitive market, with competition from other financial institutions. The bank's competitors include branches of large regional institutions, several local community banks, and several mortgage/finance companies.

We held discussions with bank management to determine what they felt were the lending needs in the community. There is a lack of affordable housing in the area, especially for LMI individuals who have been priced out of this higher real estate market. In addition, there is a need for home equity loans and consumer refinancing.

Small business loans continue to be a need in the community; however, there is more interest in small business loan renewals than new small business loans.

In assessing the bank's performance, we contacted a local non-profit organization. The contact indicated that there is a need for affordable housing and basic finance counseling. Individuals need counseling on how to improve their credit scores and create budgets, which will allow them to obtain financing. The contact stated there are multiple non-profit organizations in the community who would benefit from donations of funds, space and volunteers.

Conclusions with Respect to Performance Tests

LENDING TEST

FNB's performance under the lending test is Satisfactory. FNB's loan-to-deposit ratio is reasonable. A substantial majority of FNB's primary loan products are within the bank's AA. FNB was found to have reasonable penetration among borrowers of different income levels and businesses of different sizes. FNB's geographical distribution of loans was reasonable, and took into account that the AA does not contain any low-income CTs.

All criteria of the lending test are documented below:

Loan-to-Deposit Ratio

FNB's net loan-to-deposit ratio is reasonable given the bank's size, financial condition, lending-related activities, and AA credit needs. The bank's net loan-to-deposit ratio averaged 61.4 percent over the last 12 quarters since the last CRA examination. This ratio ranged from a quarterly low of 53.0 percent to a quarterly high of 70.2 percent during the period. The significant difference between the quarterly high and the quarterly low can be attributed to the economic downturn that took place during the evaluation period.

The average net loan-to-deposit ratio for the peer group of similar size, location and product offerings over the same 12 quarters was 81.6 percent. The peer ratio ranged from a quarterly low of 75.9 percent to a quarterly high of 89.4 percent during the period. While the bank's quarterly average net loan-to-deposit ratio is significantly lower than the peer group, it is reasonable when taking into consideration the bank's lending market share, the economic downturn, and the competitive lending environment.

Lending in Assessment Area

A substantial majority of FNB's primary loan products were made within the bank's AA. The following table details the bank's lending within the AA by number and dollar amount of loans. Ninety percent of the number of loans originated in these primary loan products was made within the AA.

Table 1 - Lending in Bucks County AA										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Home Purchase	66	91.67	6	8.33	72	13,204	88.67	1,687	11.33	14,891
Home Refinance	192	91.43	18	8.57	210	22,039	85.33	3,790	14.67	25,829
Home Improvement	180	91.84	16	8.16	196	7,503	89.46	884	10.54	8,387
Business	326	88.35	43	11.65	369	46,737	88.39	6,110	11.61	52,847
Totals	764	90.20	83	9.80	847	89,483	87.77	12,470	12.23	101,954

Source: HMDA data and sampled business loan data 1/1/2009-9/30/2011

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

The distribution of loans for the bank’s AA reflects a reasonable penetration among individuals of different income levels and businesses of different sizes.

Home Loans

The distribution of home loans to borrowers reflects reasonable penetration among borrowers of different income levels.

The percent of home refinance loans exceeds the percent of low-income families in the AA, while the percent of home improvement loans originated to low-income borrowers is near the percent of low-income families in the AA. The percent of home purchases is significantly lower than the percent of low-income families in the AA. Lending opportunities to this group are limited given the median home price in the AA of \$171,426. Low-income borrowers would have difficulty qualifying for a home purchase loan.

The percent of all home loans to moderate-income borrowers exceeds the percent of moderate-income families in the AA.

The following table shows the distribution of home loan products among borrowers of different income levels for the period of January 1, 2009 through September 30, 2011 as compared to the percent of families in each income category.

Table 2 - Borrower Distribution of Residential Real Estate Loans in Bucks County AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	11.73	1.67	14.49	15.00	22.09	15.00	51.69	68.33
Home Improvement	11.73	8.67	14.49	26.01	22.09	23.70	51.69	41.62
Home Refinance	11.73	12.92	14.49	17.42	22.09	24.72	51.69	44.94

Source: HMDA data for 2009-9/30/2011 and HUD-updated 2000 U.S. Census data

Business Loans

The distribution of loans to businesses reflects reasonable penetration among businesses of different sizes. During the loan sampling period, 49 percent of business loans originated were to small businesses. This is considered reasonable compared to demographic data that shows 67 percent of the area’s businesses are considered small businesses. Small businesses are businesses with gross annual revenues of one million dollars or less. In addition, the bank’s business lending of 2.08 percent exceeds its overall market share of 1.20 percent. Another indication the bank is lending to small businesses is the size of the loans. We found 83 percent of the business loans originated during the evaluation period were loans under \$250 thousand and the average loan amount was \$145 thousand, which provides additional support for a reasonable distribution of loans to small businesses.

The following table shows the distribution of commercial loans among different sized businesses in the AA.

Table 2A - Borrower Distribution of Loans to Businesses in Bucks County AA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	67.57	3.06	31.37	100%
% of Bank Loans in AA by #	48.90	43.17	7.93	100%
% of Bank Loans in AA by \$	34.88	60.89	4.23	100%

Source: small business loans for 2009-9/30/2011

Geographic Distribution of Loans

The distribution of loans reflects a reasonable dispersion throughout the bank’s AA. More weight was placed on the bank’s home loan distribution due to the limited number of businesses located in the moderate-income CTs.

The bank’s AA contains no low-income CTs. Therefore, we did not evaluate lending in these areas.

There were no conspicuous gaps identified within FNB’s AA.

Home Loans

The bank’s geographic distribution of home loans in FNB’s AA reflects a reasonable dispersion throughout the moderate-income CTs.

The percent of lending for home purchase loans in the moderate-income geographies exceeds the percent of owner-occupied housing in these geographies. The percent of lending for home improvement and refinancing in the moderate-income geographies is lower than the percent of owner-occupied housing. Lending in these moderate-income geographies is limited given LMI families make up 54 percent of the population. In addition, 51 percent of the units in the moderate-income tracts are rental units, which limit financing opportunities. It may be difficult for these families to qualify for a loan for

home improvements or refinancing with a family income of less than \$45,594 given the weighted average median housing price is \$115,645 in these geographies. Another factor is 11 percent of households in the moderate-income CTs are below the poverty level.

Following is a table that details the bank’s performance as compared to the percentage of owner-occupied housing units in each CTs income level.

Table 3 – Geographic Distribution of Residential Real Estate Loans in Bucks County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	N/A	N/A	4.92	13.64	37.32	24.24	57.76	62.12
Home Refinance	N/A	N/A	4.92	1.56	37.32	19.27	57.76	79.17
Home Improvement	N/A	N/A	4.92	2.78	37.32	25.00	57.76	72.22

Source: HMDA data for 2009-9/30/2011 and 2000 U.S. Census data

Business Loans

The bank’s geographic distribution of business loans reflects reasonable dispersion throughout the moderate-income CTs. The percent of small-business loans to moderate-income geographies is below the percent of small business loans in the AA; however, the opportunities to make business loans are limited because of the low number of small businesses (16) in the moderate income CTs. In addition, competition from large national and credit card banks make it difficult for a bank of FNB’s size to generate loans of this type.

Following is a table that details the bank’s performance as compared to the percentage of businesses in each census tract income level.

Table 3A – Geographic Distribution of Loans to Businesses in Bucks County AA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business	N/A	N/A	7.18	3.96	34.59	15.86	58.24	80.18

Source: small business loans sampled from 2009-9/30/2011

Responses to Complaints

FNB did not receive any CRA complaints during the evaluation period.

COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated Satisfactory. The bank’s level of CD

activities is considered adequate given its size and capacity and considering the CD needs and opportunities of its AA. During the evaluation period, FNB's CRA qualified investments and donations were 1.93 percent of tier one capital, which demonstrated adequate responsiveness to community development needs of its AA. In addition, FNB demonstrated adequate responsiveness through bank personnel providing financial expertise to seven CD organizations serving the AA, which offset the lack of any CD loans.

Number and Amount of Community Development Loans

FNB did not originate any CD loans during our evaluation period. There were loans originated during the evaluation period that met the criteria for a CD loan; however, the loans were included in the bank's CRA small business loan data.

Number and Amount of Qualified Investments

During the evaluation period, FNB made 17 qualifying grants, donations and investments totaling almost \$1.5 million in the AA.

FNB made one qualified investment in the AA since the last examination totaling \$1,000,000. It was to the PA Housing Finance Agency and the bond funds are for LMI families to obtain housing.

In addition, FNB continues to have an outstanding investment, with a current balance of \$441,404 in a previously purchased mortgage backed security (MBS). The MBS is secured by mortgages to LMI borrowers in Bucks County, PA.

During the evaluation period, FNB made 16 qualifying grants and donations totaling about \$70,452 to seven organizations that help to provide economic development, affordable housing, and educational and community services to LMI individuals and families.

Extent to Which the Bank Provides Community Development Services

FNB's service delivery systems are accessible to geographies and individuals of different income levels in its AA. Branch locations are in upper- and middle-income geographies; however, they are in close proximity to the AA's few moderate-income geographies, with access available via main thoroughfares and public transportation. There are no low-income geographies within the bank's AA.

FNB provides banking services throughout the entire AA with 12 full service branches and five limited service branches. As a percent of the total number of branches, 83.3 percent (or 10) of the full service branches and 80 percent (or four) of the limited service branches are located in the upper-income geographies where 53.68 percent of the population resides. The other 16.7 percent (or two) of the full service branches and 20 percent (or one) of the limited service branches are located in middle-income geographies where 38.65 percent of the population resides. None of the full service or limited service branches are located in moderate-income geographies. However, there

are two full service branches and one limited service branch adjacent to two of the 11 moderate-income geographies. With 7.67 percent of the population residing in moderate-income geographies, the distribution of FNB's branches adjacent to moderate-income geographies exceeds the percent of the population residing in such geographies.

FNB offers a free checking account with no minimum balance, free online banking, and a free check card. They also offer a statement savings account with a low minimum to earn interest. Lastly, they offer a variable-rate Individual Retirement Account (IRA) that requires a minimum deposit of \$25 dollars each time a deposit is made. This type of product usually has minimum deposit requirements that are above LMI individuals' capacity. The above services help to increase access to financial services for LMI individuals and are considered favorably under the CRA review as the AA has 5 percent poverty rate and 26 percent of the families are considered LMI.

During the evaluation period, nine bank employees provided financial expertise and leadership services to seven different qualifying CD organizations serving the AA. The following are the CD services provided by FNB in which employees hold key positions:

Credit Counseling Center of Bucks County *(Provides credit counseling, home buyer and home maintenance counseling, financial planning, and other financial services education that promote community development and affording housing, including credit counseling to assist borrowers in avoiding foreclosure on their homes.)*

- Chairman of the Board of Directors

Lower Bucks County Chamber of Commerce *(Finances small businesses in the Lower Bucks County region in an effort to promote economic development in the area. The Chamber of Commerce's Small Business Resources Committee addresses the needs of small businesses in the region.)*

- Speaker at "Be Your Own Boss" and "Sharpen Your Edge". He discussed how new businesses or individuals can start a business.

Newtown Improvement Association *(Offers affordable housing to low- to moderate-income individuals and families.)*

- Treasurer

Community Welfare Council *(Offers affordable housing to low- to moderate- income individuals and families.)*

- Treasurer

United Way of Bucks County Allocations Committee *(Provides aid and assistant to low- to moderate- income individuals and families.)*

- Member of the Self Sufficiency Panel, which educates low- and moderate-income individuals how to thrive.

Community Lenders Community Development Corporation *(Promotes and facilitates community revitalization through the financing of, and investment in,*

affordable housing and community development activities to low- to moderate- income individuals and families.)

- Member of the loan approval committee
- Member of CDFI Committee

Bucks County Opportunity Council; BUCK\$ BACK Program (*Provides free tax preparation service for low-income individuals and families which allows filers to avoid high-interest loans and preparation fees. It also helps them develop an asset base and strong savings habits*)

- Tax return preparer

Responsiveness to Community Development Needs

FNB's CD activities, as a whole, demonstrate adequate responsiveness to the needs and opportunities in this AA. Identified needs include additional affordable housing, fair housing education, and social services for low- and moderate-income individuals and families. In total, the bank has over \$1.5 million (1.93 percent of tier one capital) in grants, donations, and investments that benefit LMI individuals and families.

Management has noted there are few investments that include the AA due to the small number of LMI CTs in the Bucks County AA. Officers and employees provided technical assistance to seven different qualified organizations that provide needed community services to the LMI population in the AA and work to improve economic development.

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.