



Comptroller of the Currency
Administrator of National Banks

Northeastern District
1114 Avenue of the Americas, Suite 3900
New York, New York 10036

PUBLIC DISCLOSURE

December 5, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Neffs National Bank
Charter Number: 12471**

**P.O. Box 10
Neffs, Pennsylvania 18065**

**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 Community Reinvestment Act (CRA) performance of **The Neffs National Bank** prepared by The Office of the Comptroller of the Currency, the institution's supervisory agency, as of December 5, 1997. 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.

The primary factors supporting the bank's overall rating include:

- the average loan to deposit ratio of 55% is below average, but continues to increase;
- a majority of mortgage loans originated during the examination period are in the bank's assessment area;
- there is an excellent penetration of loans to individuals of different income levels; and
- substantially all of the bank's commercial lending is to small businesses.

The following table indicates the performance level of The Neffs National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	The Neffs National Bank PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Not meaningful.		
Response to Complaints	No complaints received since the prior examination.		

DESCRIPTION OF INSTITUTION

The Neffs National Bank (NNB) is a \$123 million institution situated in Neffs, Pennsylvania. The bank operates one full service office and two automated teller machines located in Lehigh County, northwest of the Allentown metropolitan area. Major competitors include branches of several larger institutions which are relatively new to the area.

Primary loan products include fixed rate residential mortgages, small business loans, and consumer installment loans. The loan portfolio represents 48% of total assets. A breakdown of the portfolio as of September 30, 1997 is as follows: 70% residential mortgages, 22% commercial credits, and 8% installment loans. There are no legal or financial impediments which would hinder the bank's ability to help meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREA

NNB's assessment area includes six census tracts in Lehigh County. The population of the assessment area is approximately 33,000. Fourteen percent of the families residing in the assessment area are low-income, sixteen percent are moderate-income, twenty-nine percent are middle-income, and forty-one percent are upper-income families.

The census tracts in the assessment area are in the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA). All of these census tracts are middle-income areas. The median family income for this MSA is \$45,800.

Unemployment rates in this area are low. There are no major employers in the assessment area, as most people travel to Allentown for employment. The economy of the Allentown area has evolved from "smoke stack" industries to more service oriented companies. Large industries such as Bethlehem Steel and Mack Trucks no longer have a strong presence in this area. Lehigh Valley Hospital, the local universities, and numerous industrial/office complexes provide the primary employment opportunities.

Credit needs of the community were determined during this examination through discussions with management. NNB has made an effort to assess the credit needs of the area by meeting with local township supervisors and using surveys sent to the public and volunteer organizations. No specific credit need was identified. Special products the bank offers include a first time home buyers program for loans up to \$70 thousand with a 10% down payment, and applications for Mortgage America which offers 95% financing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Please note that for purposes of this review the examination period covers loan activity from January 1, 1995 to September 30, 1997.

Loan to Deposit Ratio

Our analysis of the loan to deposit ratio indicates that the average ratio of 55%, which has been maintained over the past two years, is below average. This ratio is below both local and national peer banks which have average ratios of 72% and 66%, respectively. However NNB's ratio has been steadily increasing, and as a result, is considered satisfactory.

Lending in Assessment Area

We analyzed the bank's record of lending in their assessment area using information on the Home Mortgage Disclosure Act - Loan Application Registers (HMDA-LARs) for 1995, 1996, and 1997. The following table indicates that a majority of mortgage loan originations during the examination period are in the assessment area.

Mortgage Loan Originations												
	1997				1996				1995			
	#	%	\$ (000)	%	#	%	\$ (000)	%	#	%	\$ (000)	%
Inside Assessment Area	61	71	3,283	70	85	74	4,689	79	49	62	2,475	58
Outside Assessment Area	25	29	1,420	30	30	26	1,227	21	30	38	1,797	42
Total	86	100	4,703	100	115	100	5,916	100	79	100	4,272	100

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

The bank's record of lending to borrowers of different income levels was evaluated using the same information as in the above analysis. The following table shows that NNB's record of lending to borrowers of different incomes is very good. The amount of loans made to low- and moderate-income individuals during the examination period are better than the demographics would suggest.

Mortgage Loan Originations by Level of Borrower Income							
Income Category	1997		1996		1995		% of Families In Area
	# of Loans	%	# of Loans	%	# of Loans	%	
Low	140	16	21	18	9	11	14
Moderate	17	20	25	22	18	23	16
Middle	26	30	38	33	24	31	29
Upper	29	34	31	27	21	26	41
NA*	0	0	0	0	7	9	
Total	86	100	115	100	79	100	100

* Income information not available

NNB has an excellent record of lending to small businesses. We used information from the June 30, 1997 call report to evaluate the bank's record of lending to businesses of different sizes. The size of the loan was used as an indication of the size of the business. According to call report instructions, a small business loan is defined as a loan with an original amount of less than \$1 million and a small farm loan is a loan with an original amount of less than \$500 thousand. As of June 30, 1997, 100% of the commercial, commercial real estate, and agricultural loans were made to small businesses and small farms.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans was not performed. It was not considered meaningful because all the census tracts in the assessment area are middle-income.

Compliance with Antidiscrimination Laws

No violations of antidiscrimination laws and regulations were noted during the concurrent fair lending examination.