

PUBLIC DISCLOSURE

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

January 8, 1997

Farmers and Merchants National Bank of Bridgeton
Charter Number 9498
53 South Laurel Street
Bridgeton, New Jersey 08302

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

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Farmers and Merchants National Bank prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of December 2, 1996. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessment of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

Based on the findings presented below, this institution is rated:
"Satisfactory Record of Meeting Community Credit Needs."

BANK PROFILE

Farmers and Merchants National Bank (FMNB), headquartered in Bridgeton NJ, is a wholly owned subsidiary of Southern Jersey Bancorp of Delaware. FMNB is a full service bank offering a wide array of loan and deposit products. FMNB has fifteen full service banking locations, ten of which are equipped with automated teller machines (ATM's). There is one off-site ATM and night depository. As of September 30, 1996, FMNB had total assets of \$424 million centered in loans of \$281 million. The loan portfolio consists of commercial and commercial real estate loans (46%), consumer loans (30%), and residential real estate loans (24%). There are no other banking subsidiaries of the holding company.

COMMUNITY PROFILE

FMNB has designated all Cumberland County and a portion of Salem County as their delineated community. Eleven of the bank's offices are in Cumberland County (Metropolitan Statistical Area 8760) and three are located in Salem County (MSA 6160). In 1995, the bank opened an office in Gloucester County expanding the delineated community to include a small portion of that county (MSA 6160). We have not included this office in our analysis. The following table breaks down the demographics of the delineated community.

Delineated Community Demographics

MSA/County
8760/
Cumberland
6160/Salem

Total

Number of Branches

11

4

15

Population

138,053

41,453

179,506

MSA Median Family Income

\$34,571

\$41,908

Number of Census Tracts

29

16

45

Low Income Census Tracts

1 (3%)

1 (6%)

2 (4%)

Moderate Income Census Tracts

6 (21%)

5 (31%)

11 (24%)

Middle Income Census Tracts

18 (62%)

10 (63%)

28 (62%)

Upper Income Census Tracts

4 (14%)

0

4 (9%)

The low-income census tract in MSA 8760/Cumberland County is in Vineland City. Four of the moderate-income tracts are in Bridgeton City, with the remaining two in Vineland City. The low income tract in MSA 6160/Salem County is in Salem City. Three of the moderate-income tracts are also in Salem City with the remaining two in Penns Grove Borough.

The Cumberland County region has experienced economic decline over the past decade. County incomes have been among the lowest in New Jersey, with unemployment rates among the highest in the state. The county's economic base is primarily service oriented, with light manufacturing and agriculture as secondary forces. As of 1990 census data, 9% of county households received public assistance. Sixty-five percent of the county housing units were owner-occupied, 29% were renter-occupied, and 6% were vacant.

The portion of Salem County that lies in the delineated community has a similar economic base of service and light manufacturing. Agriculture plays a less important role than in Cumberland County, and in the other portions of Salem County. Again using 1990 census data, 8% of the Salem County delineated community households receive public assistance. Sixty-three percent of the housing units were owner-occupied, 31% were renter-occupied, and 6% were vacant.

Competition within the delineated community is comprised primarily of smaller national, state and thrift institutions with headquarters in the area. In addition, competition includes branch offices of larger banks with headquarters outside Cumberland and Salem counties; however, the number of these regional competitors has declined in recent years. Finally, a number of finance companies also compete in the delineated community.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

FMNB effectively ascertains community credit needs through a combination of branch office efforts, community-based contacts, and participation in public programs. Both senior management and branch personnel are involved in these

efforts. A partial list of community groups the bank has contacted for community investment purposes includes: Bridgeton Housing Development Corporation, City of Bridgeton Business Development office, Salem County Department of Economic Development, Cumberland County Loan Assistance Corporation, Cedarville Coop Marketing Association, and the Landis Theater Redevelopment Association.

The primary credit needs identified in the community are for home purchase, small business, and rental property lending. In response, management has worked with the above groups to promote community-based housing and small business loans within the delineated community. The bank continues to be active in Small Business Administration lending. They are also actively involved in two programs designed to promote home ownership in the economically distressed areas of Bridgeton and Salem City. In 1996, the bank began to offer long term (thirty year) and VA guaranteed mortgages in an effort to meet this credit need better. The bank also provides mobile home financing to meet that community need.

Management has tailored bank services to help serve the particular characteristics of the community. These include Spanish speaking employees at the Vineland office and the use of Spanish interpreters at the main office.

Assessment Factor C - The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The Board of Directors has demonstrated involvement in the bank's community investment activities through their development of the CRA program and their annual review of the CRA Statement. The Board monitors CRA performance through quarterly meetings. In addition, they review the geographic distribution of loan originations and deposits. The Directors are actively involved in community activities that aid in understanding community credit needs.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

FMNB markets products and services to its entire community. The advertising means used by the bank reach all areas of the delineated community, including the low- and moderate-income areas.

The bank primarily uses newspaper and radio advertisements to promote the loan and deposit products. The specific media outlets used by the bank are available to all parts of the delineated community. The bank routinely uses newspaper advertisements printed in Spanish to target the large Hispanic community.

The branch network plays an important role in the bank's marketing efforts. The distribution of the branches within low- and moderate-income areas helps to ensure that the bank is effectively marketing to these communities. In addition, FMNB promotes awareness of products and services through management's contact with community groups and public programs.

In May 1996, the bank held a financial seminar for the general public with presentations by bank employees. This seminar focused on all parts of personal finance including mortgages and credit applications, buying and selling a house, and investment and estate planning.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

FMNB has made efforts to address the credit needs of the community, in particular through originations of 1-4 family residential and small business loans. FMNB originates the majority of its loans in its delineated community. As of September 30, 1996, gross loans and leases totaled \$281 million, representing 66% of total assets and 74% of total deposits. The following discussion on loan originations is presented in two categories: residential mortgage and home improvement lending and small business lending.

Residential Mortgage Loans and Home Improvement Loans

The following table presents total loan originations from 1/1/94 through 12/31/95 within the delineated community. The final row reflects delineated community originations as a percent of total originations for the period. We have taken this information from Home Mortgage Disclosure Act (HMDA) data.

HMDA Lending within the Delineated Community

Loan Purpose
YE 12/31/94
YE 12/31/95
Total 1/94 -12/95

\$(000)

\$

\$

Conventional
50
4,117
69
3,652
119
7,769

Refinance
92
3,759
49
2,888
141
6,647

Home Improvement
92
3,004
31
770
123
3,774

Total - All
Purposes
234
10,880
149
7,310
383
18,190

Percent within
De- lineated
Community
86%
84%
81%
75%
84%
80%

During the evaluation period, 84% of the number and 80% of the dollar volume of HMDA loans were originated within the delineated community. The majority of these loans were originated in Cumberland County (88% of the number and 85% of the dollar volume). These percentages are consistent with the location of FMNB's branch offices.

Small Business Loans

As of June 30, 1996, the bank had 1,258 outstanding commercial loans to small businesses totaling \$87 million or 31% of total loans and leases. More than seventy percent of total commercial lending is within the delineated community.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

FMNB actively participates in SBA guaranteed financing. During the evaluation period, the bank extended fifteen SBA loans totaling \$713 thousand.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

FMNB's delineation represents a reasonable depiction of its community. This delineation is based upon the location of the fifteen bank branches, and does not arbitrarily exclude any low- or moderate-income areas. Please refer to the Community Profile comment for additional detail.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

FMNB has displayed a commitment to lend both to low- and moderate-income individuals and to low- and moderate-income areas. The table below shows the distribution of HMDA reportable loans within the delineated community by borrower income. Thirty-one percent of the number and 19% of the dollar amount of total loans were made to low- or moderate-income borrowers.

HMDA Reportable Loans 1/1/94 - 12/31/95

Borrower Income Level Distribution of Lending by Borrower Income

%
\$(000)
\$

<50% of MSA Median

53
14%
1024
6%

50-79% of MSA Median

66
17%
2450
13%

80 - 119% of MSA Median

101
26%
4,371
24%

>120% of MSA Median

163

43%
10,345
57%

The table below shows the distribution of HMDA reportable lending by income level of the census tract. This data demonstrates the bank's willingness to lend to all areas of the delineated community.

HMDA Reportable Loans 1/1/94 -12/13/95

Census Tract Income
Level
Pop. as a
%
of total
community
Distribution of Lending by Income
Level of Census
Tract

%
\$ (000)
%

Low Income
2%
5
1%
335
2%

Moderate

Income

20%

97

25%

4,853

27%

Middle Income

66%

266

69%

12,338

68%

Upper Income

12%

15

4%

654

4%

While only 1% of the number and 2% of the dollar amount of the loans were originated in the two low income tracts, these percentages are consistent with relative population of these tracts. The two low-income tracts contain only 2% of total households within the delineated community. In addition, these tracts are primarily renter-occupied areas, with 75% of the households being renters. Loan originations within the moderate-income census tracts are above the relative proportion of the population of these tracts. The bank originated 25% of the number and 27% of the dollar amount of total loans within these tracts, compared with a relative population of only 20% for the tracts.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

FMNB's branches are accessible to all areas of the delineated community. The bank operates fifteen banking offices, ten of which are equipped with automated teller machines (ATM). The bank's main office and two branches are in moderate-income census tracts and two other branches are in low-income tracts. The bank closed one branch office during the evaluation period, but maintained an ATM and night depository at the site.

The bank tailors branch services to meet the particular needs of the community. They staff bilingual employees (Spanish and English) at the Vineland Office. In addition, they provide English interpreters for the Hispanic community on Fridays evenings at the main office in Bridgeton. They provide this service to meet the banking needs of the sizeable migrant farm worker population.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement.

FMNB solicits credit applications from all segments of its delineated community. We found no evidence of pre-screening or bank practices to discourage applicants from obtaining credit.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

We conducted a concurrent Fair Lending examination and found no evidence of prohibited discrimination or other illegal credit practices. The scope of the fair Lending exam focused on whether the bank consistently applied loan terms and underwriting criteria to both minority and non-minority applicants.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

FMNB actively participates in community development programs. During the evaluation period, the bank funded community development loans through the Bridgeton Business Development Fund Program, the Bridgeton Housing Development Corporation, and the Salem City Hope 3 Program. In addition, the bank has made commitments to several loan programs that have not resulted in any loan originations to date. Summarized below are the specific projects the bank has either funded or made specific commitments to fund.

FMNB has made three loans for a total of \$1.8 million to businesses that qualified for matching funds from the Bridgeton Business Development Fund. The program was developed to stimulate business development within the Bridgeton Urban Enterprise Zone.

FMNB participates in the Bridgeton Housing Development and Hope 3 loan programs designed to promote home ownership in the low income areas of Bridgeton and Salem City, respectively. During the evaluation period, the bank funded three loans for a total of \$22 thousand through these programs.

FMNB has funded a \$150 thousand loan to the Cedarville Coop Marketing Association, a farming cooperative located in Cumberland County. They made this loan in conjunction with a state grant to finance refrigeration equipment.

FMNB has committed \$250 thousand to the Salem County Economic Development Revolving Loan Fund. This fund is designed to promote economic development and help meet the finance needs of the small business community in Salem County.

FMNB has committed \$100 thousand to a loan fund developed by the Cumberland County Loan Assistance Corporation. This corporation was formed to assist new and existing small businesses in receiving financing.

In addition to the above, the bank had taken a leadership role in a local community development project. The bank obtained a parcel of land through a loan default. Assessing a need for affordable senior citizen housing, the bank obtained the necessary municipal, county and state approvals to qualify the real estate for a multi-unit housing project. The bank then sold the parcel to a local developer and approved a \$3.7 million construction loan for the project. The project will ultimately contain 67 senior citizen housing units.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

Management's efforts to meet the credit needs of its community are commensurate with the bank's size and local economic factors. FMNB is not subject to any financial, legal, or regulatory restrictions or any other impediment that would adversely affect this ability.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

Other factors that support the bank's efforts include various donations and participation in and/or sponsorship of various community events throughout the year.

ADDITIONAL INFORMATION

The findings stated above were based on a review of information obtained from bank records as well as as discussions with management.