

# **PUBLIC DISCLOSURE**

July 24, 2000

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**MAIN STREET BANK  
READING, PENNSYLVANIA  
RSSD - 1160545**

**FEDERAL RESERVE BANK OF PHILADELPHIA  
TEN INDEPENDENCE MALL  
PHILADELPHIA, PA 19106**

**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 Reserve Bank of Philadelphia concerning the safety and soundness of this financial institution.

**Table of Contents**

<b>INSTITUTION’S CRA RATING:</b> .....	<b>1</b>
<b>DESCRIPTION OF INSTITUTION</b> .....	<b>2</b>
<b>DESCRIPTION OF ASSESSMENT AREAS</b> .....	<b>3</b>
<b>SCOPE OF EVALUATION</b> .....	<b>13</b>
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS</b> .....	<b>14</b>
<b>LENDING TEST</b> .....	<b>14</b>
<b>INVESTMENT TEST</b> .....	<b>36</b>
<b>SERVICE TEST</b> .....	<b>36</b>
<b>ADDITIONAL ASSESSMENT AREAS</b> .....	<b>39</b>
<b>COMPLIANCE WITH ANTI DISCRIMINATION LAWS</b> .....	<b>42</b>

**INSTITUTION’S CRA RATING:**

**SATISFACTORY**

The major factors contributing to this rating include:

- A substantial majority of the bank’s loans were made inside its assessment area,
- The geographic distribution of loans reflects an adequate penetration throughout the assessment area,
- The distribution of borrowers reflects a good penetration among retail customers of different income levels and business customers of different sizes,
- The bank exhibits an adequate record of serving the credit needs of the most economically disadvantaged portions of its assessment area, low-income individuals, and very small businesses, consistent with safe and sound banking practices,
- The bank has made an adequate level of community development loans,
- The bank makes use of innovative and flexible lending practices to serve the credit needs of the assessment area,
- The bank has made a poor level of qualified community development investments,
- Bank delivery systems are accessible to essentially all portions of the assessment area, and
- The bank provides a relatively high level of community development services.

The following table indicates the performance level of Main Street Bank with respect to the Lending, Investment, and Service tests.

<b>PERFORMANCE TEST MATRIX</b>			
Performance Levels	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			<b>X</b>
Low Satisfactory	<b>X</b>		
Needs to Improve		<b>X</b>	
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**

Main Street Bank (MSB), headquartered in Reading, Berks County, Pennsylvania, was formed through the merger of Berks County Bank and Heritage National Bank on January 1, 1999, with a legal name change to Main Street Bank. MSB is a state chartered, full-service commercial bank offering a variety of consumer and commercial banking services through 45 branch offices located in Berks, Schuylkill, Chester, Montgomery, Bucks, Dauphin, Lancaster, Lehigh and Northampton counties in Pennsylvania, and Hunterdon County in New Jersey. The bank operates 44 automated teller machines (ATMs). MSB also performs personal, corporate, pension and other fiduciary services through its Trust and Investment Services division.

As of June 30, 2000, the bank reported total assets of \$1.5 billion, of which \$778 million or 50.4% were loans. The composition of the bank's loan portfolio is presented in the table below:

<b>LOANS AS OF JUNE 30, 2000</b>	<b>Dollar Amount</b>	<b>Percentage</b>
<b>Real Estate Secured Loans</b>		
Construction & Land Development	\$68,623	8.8%
Open-End Loans Secured by Residential Properties	\$62,181	8.0%
Closed-End Loans Secured by Residential Property	\$282,088	36.3%
Secured by Multifamily Residential Property	\$10,042	1.3%
Commercial Mortgages	\$192,083	24.7%
Secured by Farmland	\$650	0.1%
<b>Agriculture</b>	\$108	0.01%
<b>Commercial and Industrial</b>	\$125,698	16.2%
<b>Consumer Installment</b>	\$23,967	3.1%
<b>Individual Credit Cards</b>	\$8,709	1.1%
<b>Obligations of States and Political Subdivisions</b>	\$2,647	0.3%
<b>All Other Loans</b>	\$891	0.1%
<b>GROSS LOANS</b>	<b>\$777,687</b>	<b>100.0%</b>

## **DESCRIPTION OF ASSESSMENT AREAS**

For purposes of the CRA and this evaluation, geographies are categorized and defined as follows:

- Low-income geographies have a median family income less than 50% of the MSA median family income
- Moderate-income geographies have a median family income from 50% to less than 80% of the MSA median family income
- Middle-income geographies have a median family income from 80% to less than 120% of the MSA median family income
- Upper-income geographies have a median family income equal to or greater than 120% of the MSA median family income

Correspondingly, family income levels are categorized and defined as follows:

- Low-income families have a median family income of less than 50% of the MSA median family income
- Moderate-income families have a median family income from 50% to less than 80% of the MSA median family income
- Middle-income families have a median family income from 80% to less than 120% of the MSA median family income
- Upper-income families have a median family income equal to or greater than 120% of the MSA median family income

Median family income and all other demographic indices and statistics presented throughout this evaluation, are based on 1990 U.S. Census data unless otherwise noted.

For purposes of the CRA, MSB has designated eight assessment areas:

- Berks/Lebanon Counties Assessment Area
- Schuylkill County Assessment Area
- Philadelphia Assessment Area
- Dauphin County Assessment Area
- Lancaster Assessment Area
- Allentown/Bethlehem/Easton Assessment Area
- Monroe/Northampton Counties Assessment Area
- New Jersey Assessment Area

A substantial majority of the bank's lending activity is contained primarily in three of the assessment areas: Berks/Lebanon Counties, Schuylkill County, and Philadelphia. For this reason, these assessment areas will be the main focus of this Public Evaluation. The other five assessment areas were added in 1999 to expand the market area of MSB. To date, these areas have not generated sufficient loan volume to allow for a meaningful CRA analysis. However, a limited review of each of these assessment areas was performed and is presented at the end of this Public Evaluation.

## **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

### **DESCRIPTION OF THE BERKS/LEBANON COUNTIES ASSESSMENT AREA**

The Berks/Lebanon Counties assessment area comprises 76 geographies in Berks County, encompassing the entire Reading MSA, and four adjacent geographies in eastern Lebanon County. The four Lebanon County geographies, which are proximate to the bank's Robesonia branch in Berks County, have demographics similar to those of the Reading MSA. Therefore, demographic data for the Berks/Lebanon Counties assessment area will be derived from the Reading MSA.

According to 1990 census data, 20 of the geographies in the assessment area are designated as low- or moderate-income, with 14% of the population residing within these geographies. Four of the low-income geographies and all 15 moderate-income geographies are located in the City of Reading. The fifth low-income geography is located in eastern Berks County and borders the Montgomery County line. This geography has no population and no reportable income level. The following table presents relevant demographic information:

<b>BERKS/LEBANON ASSESSMENT AREA DEMOGRAPHICS BY GEOGRAPHY</b>				
<b>Type of Geography</b>	<b>Number of Geographies</b>	<b>Percent</b>	<b>Population of Geographies</b>	<b>Percent</b>
<b>Low-Income</b>	5	6%	11,691	3%
<b>Moderate-Income</b>	15	19%	40,381	11%
<b>Middle-Income</b>	52	65%	248,879	71%
<b>Upper-Income</b>	8	10%	51,005	15%
<b>Totals</b>	<b>80</b>	<b>100%</b>	<b>351,956</b>	<b>100%</b>

### **Median Family Income**

According to 1990 Census Bureau statistics, the median family income for the Berks/Lebanon Counties assessment area was \$37,538, which is higher than the Pennsylvania's state median income of \$34,856.

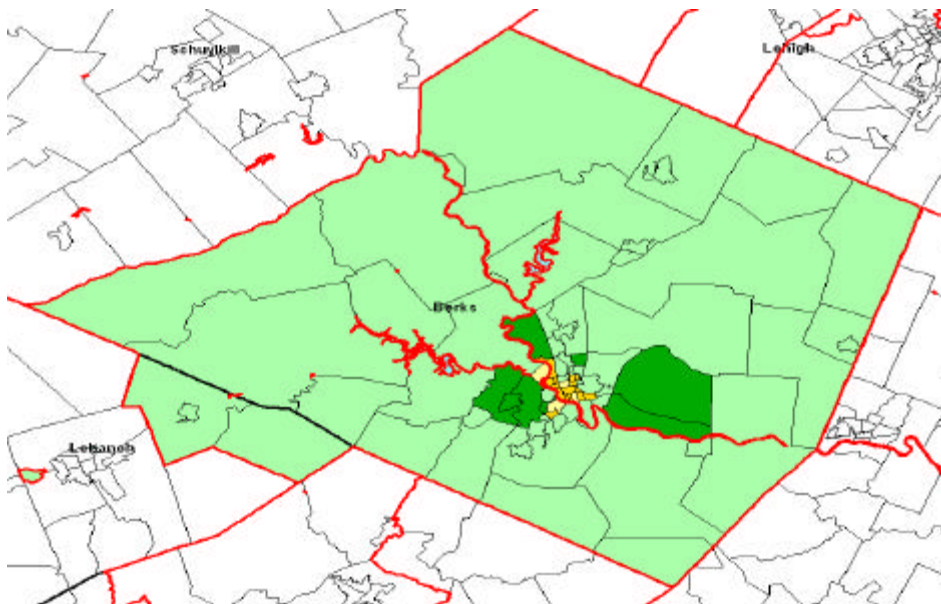
There are 96,370 families in the assessment area, representing 72% of total households. Of the total number of families in the assessment area, 34,353, or 35%, are designated as low- or moderate-income. Approximately 77% of these families reside in the middle- and upper-income geographies of the assessment area. The following table shows the number of families in the assessment area by income level designation.

**DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

**DESCRIPTION OF THE BERKS/LEBANON COUNTIES ASSESSMENT AREA (Continued)**

BERKS/LEBANON ASSESSMENT AREA DEMOGRAPHICS BY INCOME		
	Number of Families	Percent
Low-Income Families	15,735	16%
Moderate-Income Families	18,618	19%
Middle-Income Families	26,550	28%
Upper-Income Families	35,467	37%
<b>Total Families</b>	<b>96,370</b>	<b>100%</b>

**Map of the Assessment Area**



**Overlays**

**Overlays**

- Assessment Area Label
- Assessment Area
- County Name
- County Boundaries
- Median Family Income by Tract

**Median Family Income**

**Median Family Income Index (1998)**  
**100 = Average**

- 0 < 50 Low
- 50 < 80 Moderate
- 80 < 120 Middle
- >= 120 Upper
- Missing Data
- Excluded
- Not Selected

## DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)

### **DESCRIPTION OF THE BERKS/LEBANON COUNTIES ASSESSMENT AREA (Continued)**

#### Housing

The Berks/Lebanon Counties assessment area contains 140,176 housing units. Single family units comprise 52% of total housing units, while two-to-four family units comprise 34% and multi-family units comprise 9%. The median age of housing stock for both the assessment area and the state is 43 years. The assessment area's median housing value is \$80,202, higher than the state median value of \$69,075. There is a significant disparity between the median housing value in the upper-income and middle-income geographies at \$100,293 and \$81,792, respectively, and that in moderate-income and low-income geographies, at \$43,077 and \$31,668, respectively.

Of the assessment area's 140,176 total housing units, 70% are owner-occupied. Owner occupancy in low- and moderate-income geographies is 29% and 47%, respectively. This compares unfavorably to owner occupancy levels of 75% in middle-income and 80% in upper-income geographies. The median gross rent in the assessment area is \$411 per month, compared to the median rent for the state at \$404. Approximately 33% of the renters in the assessment area expend more than 30% of gross income for housing.

The following chart shows the number of owner-occupied housing units in each geography compared to the number of total available units.

<b>BERKS/LEBANON ASSESSMENT AREA HOUSING FIGURES BY GEOGRAPHY</b>			
<b>Type of Geography</b>	<b>Total Units</b>	<b>Owner Occupancy</b>	<b>Percent Owner Occupied</b>
<b>Low-Income</b>	4,916	1,442	29%
<b>Moderate-Income</b>	18,063	8,532	47%
<b>Middle-Income</b>	96,951	72,400	75%
<b>Upper-Income</b>	20,246	16,207	80%
<b>All Geographies</b>	<b>140,176</b>	<b>98,581</b>	<b>70%</b>

#### Economic Characteristics

The economy in the Reading area experienced accelerated growth in 1999 and during the first six months of 2000. Expansion in the financial services, business services, and construction sectors are the factors which contributed to this growth, which offsets the continued decline in the manufacturing industry. The local economy also maintains a heavy concentration in durable goods manufacturing. Unemployment in Berks County was 4.2% as of June 30, 2000, the same as the unemployment rate for the state.

Major employers in the Reading area include East Penn Manufacturing Company, Reading Hospital, Carpenter Technology Corporation, Lucent Technologies, Boscov's Department Stores, and First Union Corporation. Government-related jobs comprise a notable portion of employment in Reading, which is the largest city in Berks County and the county seat. The major banking competitors of MSB are First Union National Bank and Sovereign Bank. Mid-size banks including Commonwealth Bank, Great Valley Bank, and All first Bank, also have a significant presence in the market.



**DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

**DESCRIPTION OF THE BERKS/LEBANON COUNTIES ASSESSMENT AREA (Continued)**

**Economic Characteristics (continued)**

The near-term outlook for economic growth in the Reading MSA is below that of the nation, due to weak employment growth in the manufacturing sector, weak population growth, and an above-average concentration of elderly persons. Census data indicates that approximately 16% of the population in the Berks/Lebanon assessment area are age 65 or older.

**DESCRIPTION OF SCHUYLKILL COUNTY ASSESSMENT AREA**

This assessment area includes Schuylkill County in its entirety. Schuylkill County is located in eastern central Pennsylvania and is situated in a Non-Metropolitan Statistical Area (Non-Metro), as defined by the U.S. Census Bureau. The county comprises 40 block numbering areas (BNAs), with one BNA designated as low-income and three designated as moderate-income.

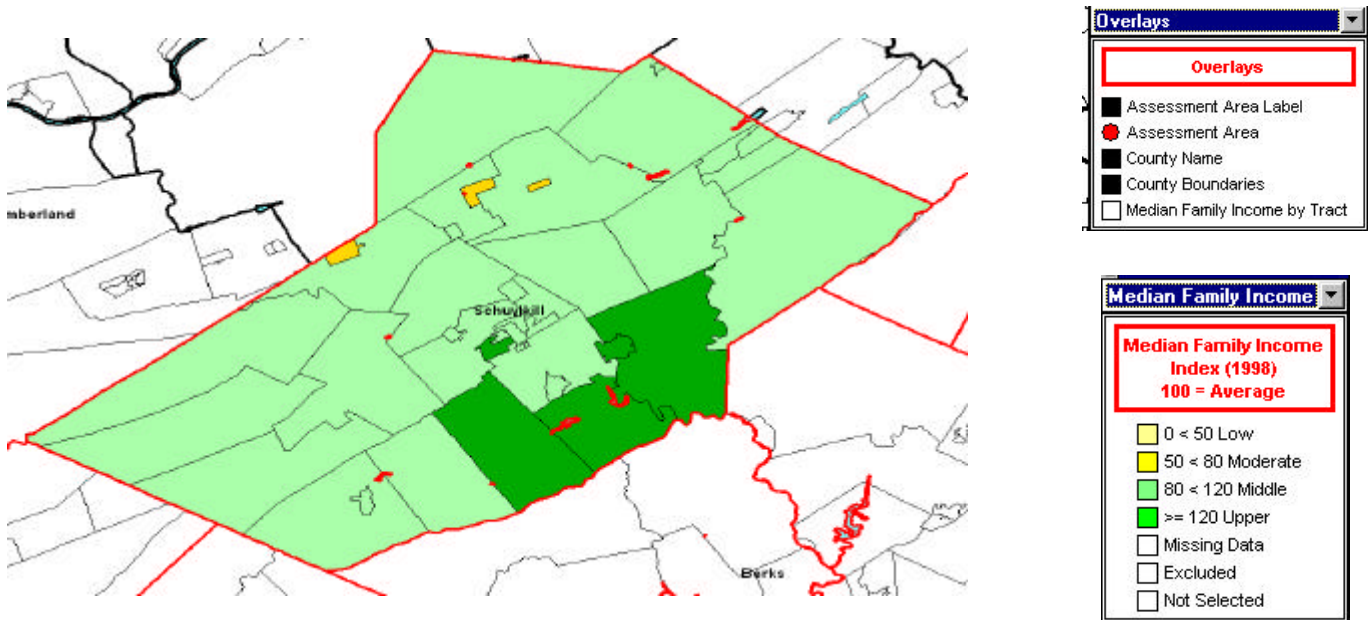
According to 1990 census data, three of the BNAs in this assessment area are designated as moderate-income, with 10% of the population residing within these areas. The one low-income BNA is located on the Appalachian Trail and does not contain any population or housing. The following table presents relevant demographic information:

<b>SCHUYLKILL COUNTY ASSESSMENT AREA DEMOGRAPHICS BY GEOGRAPHY</b>				
<b>Type of BNA</b>	<b>Number of Block Numbering Areas</b>	<b>Percent</b>	<b>Population of BNAs</b>	<b>Percent</b>
<b>Low-Income</b>	1	2%	-0-	0%
<b>Moderate-Income</b>	3	8%	15,336	10%
<b>Middle-Income</b>	31	78%	119,958	79%
<b>Upper-Income</b>	5	12%	17,291	11%
<b>Totals</b>	<b>40</b>	<b>100%</b>	<b>152,585</b>	<b>100%</b>

**DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

**DESCRIPTION OF SCHUYLKILL COUNTY ASSESSMENT AREA (Continued)**

**Map of the Assessment Area**



**Median Family Income**

According to 1990 Census Bureau statistics, the median family income for Schuylkill County is \$29,041, which is lower than the statewide median income of \$34,856, but higher than the Non-Metro/PA median income of \$28,934.

There are 42,664 families in the assessment area, representing 70% of total households. Of the total number of families in the assessment area, 15,755, or 37%, are designated as low- or moderate-income. A substantial majority of these families, 86%, live in the middle and upper-income geographies. The percentage of families living below the poverty level is 7.7%, which is lower than the Non-Metro level of 9.3%, and the state level of 8.2%. The next table shows the number of families in the assessment area by income level designation.

SCHUYLKILL COUNTY ASSESSMENT AREA DEMOGRAPHICS BY INCOME		
	Number of Families	Percent
Low-Income Families	7,757	18%
Moderate-Income Families	7,998	19%
Middle-Income Families	10,749	25%
Upper-Income Families	16,160	38%
<b>Total Families</b>	<b>42,664</b>	<b>100%</b>

## **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

### **DESCRIPTION OF SCHUYLKILL COUNTY ASSESSMENT AREA (Continued)**

#### **Housing**

The Schuylkill County assessment area contains 66,457 housing units. Single family units comprise 48% of the housing units, while two- to four-family units comprise 42%, multi-family units 5%, and mobile homes 4%. The median housing value is \$37,933, significantly lower than the state median value of \$69,075 and the Non-Metro/PA median value of \$49,857. The median gross rent is \$284 per month, compared to \$404 for the state and \$312 for Non-Metro/PA. The median age of the housing stock is pre-1940, significantly older than both the state median age of 43 years and the Non-Metro/PA rate of 45 years. Of the 66,457 housing units in the assessment area, 71% are owner-occupied. The following chart shows the number of owner-occupied housing units in each geography, compared to the total number of available units.

<b>SCHUYLKILL COUNTY ASSESSMENT AREA HOUSING FIGURES BY GEOGRAPHY</b>			
<b>Type of Geography</b>	<b>Total Units</b>	<b>Owner Occupancy</b>	<b>Percent Owner Occupied</b>
<b>Low-Income</b>	-0-	-0-	0%
<b>Moderate-Income</b>	8,046	5,061	63%
<b>Middle-Income</b>	51,469	37,080	72%
<b>Upper-Income</b>	6,942	5,320	77%
<b>All Geographies</b>	<b>66,457</b>	<b>47,461</b>	<b>71%</b>

#### **Economic Characteristics**

Schuylkill County is a mostly rural area of eastern Pennsylvania. Pottsville is the county seat and business center and has a population of over 17,000. Although the local economy is somewhat depressed, it is not in decline. Major employers in the county include J.E. Morgan Knitting Mills, Alcoa Aluminum, Lowe's Distribution Center, Guilford Mills, and Gould's Pumps. Banking competitors in Schuylkill County include First Union National Bank, Community Banks, N.A., and Keystone Financial Bank, N.A. As of June 30, 2000, the unemployment rate in Schuylkill County remained high at 6.7%, well above the state unemployment rate of 4.2%.

### **DESCRIPTION OF THE PHILADELPHIA ASSESSMENT AREA**

The Philadelphia assessment area comprises 378 geographies, encompassing all of Montgomery and Chester counties and adjacent geographies in Bucks and Delaware counties. The assessment area is situated in southeastern Pennsylvania and is part of the Philadelphia MSA.

According to 1990 census data, there are 11 geographies in the assessment area designated as low-income, seven of which are located in Chester County. One low-income geography comprises Coatesville, and the other six geographies have limited populations and no reportable income level. The portion of the assessment area in Bucks County contains three low-income geographies, and the portion in Montgomery County one low-income geography. These four geographies have limited populations and no reportable income levels.

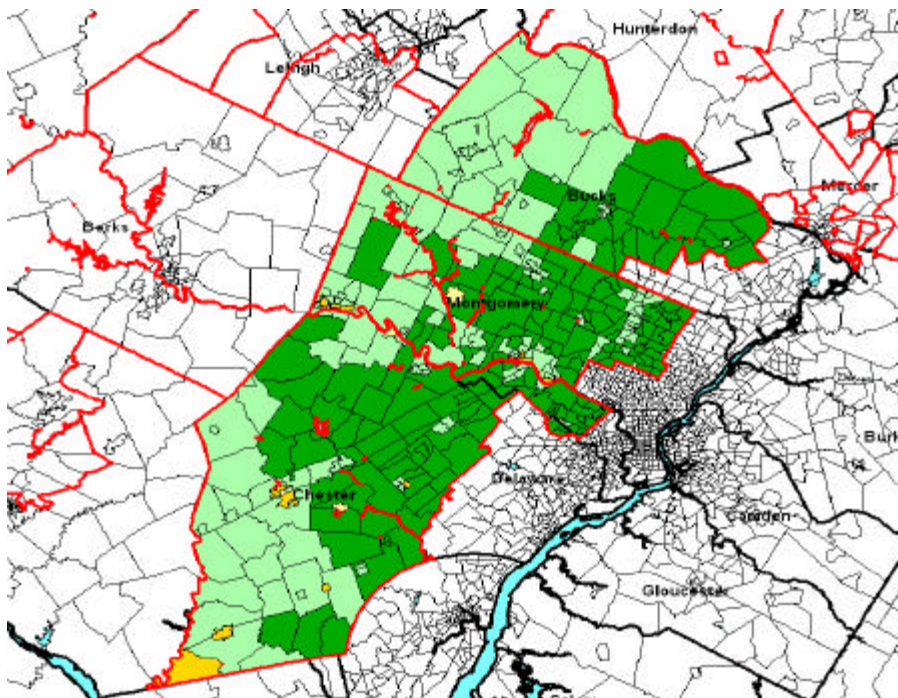
**DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

**DESCRIPTION OF THE PHILADELPHIA ASSESSMENT AREA (Continued)**

Of the 16 moderate-income geographies, eight are located in Chester County and eight in Montgomery County. All of the moderate-income geographies are located in older more urban locales, including West Chester Borough and Coatesville in Chester County and Norristown, Conshohocken, and Pottstown Boroughs in Montgomery County. The following table presents relevant demographic information:

PHILADELPHIA ASSESSMENT AREA DEMOGRAPHICS BY GEOGRAPHY				
Type of Geography	Number of Geographies	Percent	Population of Geographies	Percent
Low-Income	11	3%	7,731	1%
Moderate-Income	16	4%	43,120	3%
Middle-Income	166	44%	528,121	41%
Upper-Income	185	49%	701,295	55%
<b>Total</b>	<b>378</b>	<b>100%</b>	<b>1,280,267</b>	<b>100%</b>

**Map of the Assessment Area**



**Overlays**

- Assessment Area Label
- Assessment Area
- County Name
- County Boundaries
- Median Family Income by Tract

**Median Family Income**

**Median Family Income Index (1998)**  
**100 = Average**

- 0 < 50 Low
- 50 < 80 Moderate
- 80 < 120 Middle
- >= 120 Upper
- Missing Data
- Excluded
- Not Selected

## **DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)**

### **DESCRIPTION OF THE PHILADELPHIA ASSESSMENT AREA (Continued)**

#### **Median Family Income**

According to 1990 Census Bureau Statistics, the median family income for the assessment area was \$51,973, higher than both the statewide median income of \$34,856 and the MSA median income of \$41,908.

There are 344,046 families in the assessment area, representing 74% of total households. Of the total number of families in the assessment area, 25% are designated as low- or moderate-income. A majority of these families, 92%, live in middle- and upper-income geographies. The following table shows the number of families in the assessment area by income level designation.

<b>PHILADELPHIA ASSESSMENT AREA DEMOGRAPHICS BY INCOME</b>		
	<b>Number of Families</b>	<b>Percent</b>
<b>Low-Income Families</b>	34,707	10%
<b>Moderate-Income Families</b>	49,994	15%
<b>Middle-Income Families</b>	79,424	23%
<b>Upper-Income Families</b>	179,921	52%
<b>Total Families</b>	<b>344,046</b>	<b>100%</b>

#### **Housing**

The assessment area contains 489,459 housing units. Single family units comprise 58% of the housing units, two-to-four family units comprise 23%, and multi-family units comprise 15%. The median age of housing stock for the assessment area is 33 years, compared to the state and the MSA median age of 43 years. The assessment area's median housing value is \$149,365, substantially higher than both the state median value of \$69,075 and the MSA median value of \$99,212. Further, there is a significant disparity between the median housing values in the upper- and middle-income geographies at \$181,187 and \$118,118, respectively, and that in moderate and low-income geographies at \$72,923 and \$60,755, respectively. The assessment area's median gross rent is \$593 per month, higher than the median rent for both the state at \$404 and the MSA at \$515. Moreover, 34% of the assessment area's renters expend more than 30% of gross income for housing.

Of the 489,459 housing units in the assessment area, 71% are owner-occupied, which compares favorably to the statewide and MSA owner-occupancy rate of 64%. The following chart shows the number of owner-occupied housing units compared to the total number of available units in the assessment area.

## DESCRIPTION OF ASSESSMENT AREAS (CONTINUED)

### DESCRIPTION OF THE PHILADELPHIA ASSESSMENT AREA (Continued)

#### Housing (continued)

PHILADELPHIA ASSESSMENT AREA HOUSING PROFILE BY GEOGRAPHY			
Type of Geography	Total Units	Owner-Occupied Units	Percent Owner Occupied
Low-Income	1,264	493	39%
Moderate-Income	18,324	8,361	46%
Middle-Income	208,124	136,334	66%
Upper-Income	261,747	201,590	77%
<b>All Geographies</b>	<b>489,459</b>	<b>346,778</b>	<b>71%</b>

#### Economic Characteristics

This assessment area is located within the Philadelphia Metropolitan Statistical Area (MSA) and the local market economy is greatly dependent upon the economic vitality of Philadelphia. The economy of the Philadelphia MSA is deemed generally diverse, and not solely dependent on any one major industry or employer. U.S. Bureau of Labor statistics for 1999 indicate that employment in the MSA is provided largely by the service, retail trade, manufacturing, and government sectors. The largest employer in the MSA is government, including local, state, and federal. The largest private-sector employers in the MSA are the University of Pennsylvania, Jefferson Health Systems, Temple University, Lockheed Martin Corporation and Bell Atlantic. The Philadelphia MSA has a highly competitive banking environment that is dominated by large regional banking organizations and aggressive community banks.

The Philadelphia MSA experienced solid job growth in 1999, with an average unemployment rate of 4.1%. The seasonally unadjusted unemployment rates for the four counties included in this assessment area are presented in the table below. All the ratios compared favorably to the statewide average of 4.2% for the same time period.

County	Unemployment rate as of 6/30/00
Bucks	3.5%
Chester	2.8%
Montgomery	2.9%
Delaware	3.8%

\* Source: Pennsylvania Department of Labor & Industry

## **SCOPE OF EVALUATION**

The Lending, Investment, and Service Tests were applied to Main Street Bank to assess its performance under the CRA, pursuant to the Interagency Procedures and Guidelines for Large Retail Institutions. Loan products evaluated included home-purchase loans and refinancings of such loans, and home-improvement loans. Such loans are reported to the Federal Reserve Board, as required by Regulation C, the Home Mortgage Disclosure Act. For the purposes of this evaluation, the loans will be referenced as HMDA loans. Other loan products evaluated included small business loans and other loans qualifying as community development loans.

The evaluation of the bank's HMDA loans covered the period from January 1, 1998 through December 31, 1999. The evaluation of the bank's small business loans covered the period from January 1, 1999 to December 31, 1999. The evaluation of the bank's loans, investments, grants and services qualifying as community development, covered the period since the bank's previous examination, from September 1, 1999 to July 31, 2000. Information from interviews conducted with community representatives, and prepared by the Federal Reserve and other regulatory agencies was also utilized to assess bank performance under the CRA.

To conduct the evaluation of the geographic distribution of loans, geographies are classified on the basis of 1990 U.S. Census data. Determination of the distribution of loans to borrowers of different income levels is based upon 1999 adjusted median family income data made available by the U.S. Department of Housing and Urban Development (HUD).

HMDA-related lending activities, were compared to the aggregate of all lenders in the bank's assessment area reporting real estate loans pursuant to HMDA. This data is reported annually, and the most recent year for which information was available is 1998.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

The lending test evaluates an institution's lending activities within a given assessment area with respect to the following characteristics:

- Overall lending levels and assessment area concentration,
- Geographic distribution of loans, particularly loans originated in low- and moderate-income geographies,
- Borrowers' profile, particularly low- and moderate-income borrowers and small businesses,
- Overall responsiveness to the credit needs of highly economically disadvantaged geographies, low-income persons, and very small businesses,
- Community development lending activities, and
- The use of innovative or flexible lending practices to address community credit needs.

The performance of MSB under the lending test is assessed as low satisfactory.

### **Lending Activity and Assessment Area Concentration**

Bank lending levels reflect adequate responsiveness to assessment area credit needs. As of June 30, 2000, 50% of the bank's assets consisted of loans outstanding. For this period, the bank's loan-to-deposit ratio was 67%. This ratio is well below the average ratio for all banks within the national peer group of MSB, at 85%<sup>1</sup>.

An analysis was performed to determine the volume of loans extended inside and outside of the bank's assessment area. The analysis consisted of an evaluation of the bank's HMDA and small business lending activity for 1999. Based on the analysis, it was determined that a substantial majority of HMDA and small business loans were made within the bank's assessment area, as shown in the following tables:

<b>1999 HMDA LOAN PENETRATION</b>				
<b>NUMBER AND DOLLAR AMOUNT OF LOANS</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Inside Assessment Area</b>	1,403	91%	\$129,288	87%
<b>Outside Assessment Area</b>	134	9%	\$20,195	13%
<b>Total Loans</b>	<b>1,537</b>	<b>100%</b>	<b>\$149,483</b>	<b>100%</b>

<b>1999 SMALL BUSINESS LOAN PENETRATION</b>				
<b>NUMBER AND DOLLAR AMOUNT OF LOANS</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Inside Assessment Area</b>	134	95%	\$16,385	96%
<b>Outside Assessment Area</b>	7	5%	\$716	4%
<b>Total Loans</b>	<b>141</b>	<b>100%</b>	<b>\$17,101</b>	<b>100%</b>

<sup>1</sup> The peer group of the bank includes all insured commercial banks having assets between \$1 billion and \$3 billion.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Geographic Distribution**

An analysis of the geographic distribution of loans was conducted in an effort to determine the dispersion of loans among different geographies within the bank's assessment area. The analysis reflects adequate penetration throughout the assessment areas.

#### **Home Mortgage Lending in the Berks/Lebanon Counties Assessment Area**

MSB originates a significant number of residential mortgages in the Berks/Lebanon Counties assessment area. According to 1998 aggregated HMDA data, 14,600 residential mortgage loans were collectively originated by 289 financial institutions within the assessment area<sup>2</sup>. The largest mortgage originator in the assessment area was Sovereign Bank, with a market share of 10.6%. Great Valley Bank and First Union National Bank ranked 3<sup>rd</sup> and 4<sup>th</sup>, with market shares of 6.1% and 4.7%, respectively. The predecessors of MSB, Berks County Bank and Heritage National Bank ranked 2<sup>nd</sup> and 201<sup>st</sup>, respectively. Berks County Bank had a market share of 6.8% and Heritage National Bank had a market share of less than 1%. As previously noted, the latter two banks merged on January 1, 1999, to form MSB.

The following tables show the geographic distribution of MSB's home mortgage loans in 1998<sup>3</sup> and 1999:

<b>BERKS/LEBANON COUNTIES ASSESSMENT AREA 1998 HMDA GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS</b>				
<b>TYPE OF GEOGRAPHY</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income</b>	12	1%	\$571	1%
<b>Moderate-Income</b>	50	5%	\$2,090	2%
<b>Middle-Income</b>	647	65%	\$61,637	68%
<b>Upper-Income</b>	282	29%	\$26,354	29%
<b>All Geographies</b>	<b>991</b>	<b>100%</b>	<b>\$90,652</b>	<b>100%</b>

<sup>2</sup> 1998 is the most recent year for which aggregate HMDA data is available.

<sup>3</sup> All 1998 loan data includes the combined lending of Berks County Bank and Heritage National Bank.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (Continued)

#### Geographic Distribution (continued)

#### Home Mortgage Lending in the Berks/Lebanon Counties Assessment Area

<b>BERKS/LEBANON ASSESSMENT AREA 1999 HMDA GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS</b>				
<b>TYPE OF GEOGRAPHY</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income</b>	18	2%	\$851	1%
<b>Moderate-Income</b>	48	6%	\$1,747	2%
<b>Middle-Income</b>	596	68%	\$59,024	71%
<b>Upper-Income</b>	214	24%	\$21,696	26%
<b>All Geographies</b>	<b>876</b>	<b>100%</b>	<b>\$83,318</b>	<b>100%</b>

A review of the HMDA data reveals lower lending levels in low- and moderate-income geographies when compared to the demographics of the assessment area, however, lending levels are consistent with aggregate lending in the assessment area.

#### Geographic Distribution in Relation to Assessment Area Demographics

The next table compares the population demographics with the geographic distribution of the bank's home mortgage loans. The table shows that while 14% of the assessment area's population resides in low- or moderate-income geographies, only 6% of the bank's 1998 HMDA loans were originated in these geographies. In 1999, lending penetration increased to 7% in low- and moderate-income geographies.

<b>GEOGRAPHY TYPE</b>	<b>BERKS/LEBANON ASSESSMENT AREA POPULATION</b>	<b>1998 HMDA LOANS GEOGRAPHIC DISTRIBUTION</b>		<b>1999 HMDA LOANS GEOGRAPHIC DISTRIBUTION</b>	
		<b>% of #</b>	<b>% of \$</b>	<b>% of #</b>	<b>% of \$</b>
<b>Low-Income</b>	3%	1%	1%	2%	1%
<b>Moderate-Income</b>	11%	5%	2%	6%	2%
<b>Middle-Income</b>	71%	65%	68%	68%	71%
<b>Upper-Income</b>	15%	29%	29%	24%	26%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The following table compares the bank's lending activity to market activity. The analysis shows that lending in the low- and moderate-income geographies was modest for all lenders in the Berks/Lebanon Counties assessment area. MSB performed about the same as the market in these geographies in 1998 and 1999.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Geographic Distribution (continued)**

##### **Geographic Distribution in Relation to Market Performance**

<b>MARKET COMPARISON OF THE GEOGRAPHIC DISTRIBUTION OF HMDA LOANS</b>			
<b>PERCENT OF LOANS ORIGINATED</b>			
<b>TYPE OF GEOGRAPHY</b>	<b>Main Street Bank 1999</b>	<b>Main Street Bank 1998</b>	<b>MARKET 1998</b>
<b>Low-Income</b>	2%	1%	<b>1%</b>
<b>Moderate-Income</b>	6%	5%	<b>6%</b>
<b>Middle-Income</b>	68%	65%	<b>75%</b>
<b>Upper-Income</b>	24%	29%	<b>18%</b>
<b>All Geographies</b>	100%	100%	<b>100%</b>

In assessing the bank's penetration levels, consideration was given to economic, demographic, and other factors existing in the assessment area. First and most significantly, only 14% of the population in the assessment area resides in low- and moderate-income geographies. Second, the limited amount of available housing in the low- and moderate-income geographies affects the bank's ability to generate mortgage loans. Of the 140,176 available housing units in the assessment area, only 4,916 units are located in low-income geographies, and only 29% of these units are owner-occupied. There are 18,063 available housing units located in the moderate-income geographies, with less than half, or 47%, of these units owner-occupied. The majority of the 117,197 available housing units are located in the middle- and upper-income geographies. In the middle-income geographies, there are 96,951 available housing units, with 75% owner-occupied. In the upper-income geographies, there are 20,246 available housing units with 80% owner-occupied.

Management has initiated efforts to address the credit needs of borrowers residing in low- and moderate-income geographies. The affordable housing programs offered by the bank are discussed on page 35, under Innovative and Flexible Lending Practices.

#### **Small Business Lending in the Berks/Lebanon Counties Assessment Area**

For the purposes of this analysis, a small business loan is defined as a commercial loan with an origination amount of \$1 million or less. MSB originated 55 small business loans in the Berks/Lebanon assessment area during 1999, in an aggregate amount of \$5.1 million.

A comparison of the number and dollar volume of small business loans in each geography to the number of small businesses located in each geography illustrates the bank's strong commitment to making credit available to its entire community. Business demographics revealed that there were a total of 9,127 small businesses within the Berks/Lebanon Counties assessment area. An analysis of 1999 lending activity showed that the bank's extensions of credit to small businesses approximates the distribution of businesses by

(continued)

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Small Business Lending in the Berks/Lebanon Counties Assessment Area (continued)**

geography in moderate-, middle-, and upper-income geographies. Moderate-income geographies received 7% of the bank's small business loans, while 9% of small businesses are located in these geographies. Middle-income geographies received 75% of small business loans for their 74% share of small businesses. Upper-income geographies received 18% of small business loans for their 14% share of small businesses. No loans were originated in the low-income geographies, which contain 3% of the small businesses within the assessment area.

The analysis of the 1999 small business lending activity revealed the following geographic distribution:

<b>BERKS/LEBANON ASSESSMENT AREA 1999 SMALL BUSINESS GEOGRAPHIC DISTRIBUTION</b>				
<b>Type of Geography</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income</b>	0	0%	\$0	0%
<b>Moderate-Income</b>	4	7%	\$90	2%
<b>Middle-Income</b>	41	75%	\$3,703	73%
<b>Upper-Income</b>	10	18%	\$1,276	25%
<b>All Geographies</b>	<b>55</b>	<b>100%</b>	<b>\$5,069</b>	<b>100%</b>

#### **Geographic Distribution in Relation to Market Performance**

A comparison of the bank's lending activity to the aggregate lending in the market shows that MSB performed below the market in low-income geographies in 1999. The bank exceeded market performance in middle-income geographies and performed about the same as the market in the moderate- and upper-income geographies.

<b>MARKET COMPARISON OF GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS PERCENT OF LOANS ORIGINATED</b>		
<b>TYPE OF GEOGRAPHY</b>	<b>Main Street Bank 1999</b>	<b>MARKET 1998</b>
<b>Low-Income</b>	0%	<b>3%</b>
<b>Moderate-Income</b>	7%	<b>7%</b>
<b>Middle-Income</b>	75%	<b>71%</b>
<b>Upper-Income</b>	18%	<b>19%</b>
<b>All Geographies</b>	100%	<b>100%</b>

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Geographic Distribution in Relation to Assessment Area Demographics**

The following table compares the demographics of the assessment area with the geographic distribution of the bank's small business loans.

GEOGRAPHY TYPE	BERKS/LEBANON Small Businesses by Geographic Designation	1999 SMALL BUSINESS LOANS GEOGRAPHIC DISTRIBUTION	
		% of #	% of \$
Low-Income	3%	0%	0%
Moderate-Income	9%	7%	2%
Middle-Income	75%	75%	73%
Upper-Income	14%	18%	25%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The geographic distribution of home mortgage and small business loans reflects adequate penetration throughout the Berks/Lebanon Counties assessment area.

#### **Home Mortgage Lending in the Schuylkill County Assessment Area**

MSB has originated a significant number of residential mortgages in the Schuylkill County assessment area. According to 1998 aggregate HMDA data, 4,225 home mortgage loans were collectively originated by 178 financial institutions within the assessment area. The largest mortgage lender in the assessment area was First Union National Bank with a market share of 11.5%. Main Street Bank's predecessors, Heritage National Bank and Berks County Bank, ranked 2<sup>nd</sup> and 6<sup>th</sup>, respectively. Heritage National Bank had a market share of 9.7%. Berks County Bank had a market share of 4.5%. Pennsylvania National Bank and Community Banks, N.A., were also significant mortgage originators in the assessment area with market shares of 8.9% and 8.8%, respectively.

The following tables show the geographic distribution of the bank's home mortgage loans in 1998 and 1999.

SCHUYLKILL COUNTY ASSESSMENT AREA 1998 HMDA GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNT OF LOANS				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	-0-	0%	-0-	0%
Moderate-Income	2	1%	\$37	1%
Middle-Income	153	66%	\$9,996	60%
Upper-Income	77	33%	\$6,297	39%
<b>All Geographies</b>	<b>232</b>	<b>100%</b>	<b>\$16,330</b>	<b>100%</b>

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (Continued)

#### Home Mortgage Lending in the Schuylkill County Assessment Area (continued)

SCHUYLKILL COUNTY ASSESSMENT AREA 1999 HMDA GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	0	0%	0	0%
Moderate-Income	2	1%	\$166	1%
Middle-Income	196	65%	\$12,326	54%
Upper-Income	103	34%	\$10,300	45%
<b>All Geographies</b>	<b>301</b>	<b>100%</b>	<b>\$22,792</b>	<b>100%</b>

A review of the bank's geographic distribution of home mortgage loans reflects modest penetration in the moderate-income geographies compared to the demographics and aggregate lending levels of the assessment area.<sup>4</sup>

#### **Geographic Distribution in Relation to Assessment Area Demographics**

The table below compares the demographics of the assessment area with the bank's distribution of loans according to geographic designation. The table reveals that while 10% of the assessment area's population resided in moderate income geographies in 1998 and 1999, only 1% of the bank's HMDA loans were originated in these geographies.

GEOGRAPHY TYPE	SCHUYLKILL COUNTY ASSESSMENT AREA POPULATION	1998 HMDA LOANS GEOGRAPHIC DISTRIBUTION		1999 HMDA LOANS GEOGRAPHIC DISTRIBUTION	
		% of #	% of \$	% of #	% of \$
Low-Income	0%	0%	0%	0%	0%
Moderate-Income	10%	1%	1%	1%	1%
Middle-Income	79%	66%	60%	65%	54%
Upper-Income	11%	33%	39%	34%	45%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### **Geographic Distribution in Relation to Market Performance**

The following table compares the bank's lending activity to market activity. The analysis shows that MSB performed below the market in moderate- and middle-income geographies in 1998 and 1999. In upper income geographies, the bank exceeded market performance in each year.

<sup>4</sup> As discussed under the section, **Description of Assessment Areas**, the sole low-income geography in Schuylkill County contains no population and no housing, and was omitted from the lending analysis.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (Continued)

#### Geographic Distribution in Relation to Market Performance (continued)

SCHUYLKILL COUNTY ASSESSMENT AREA MARKET COMPARISON OF THE GEOGRAPHIC DISTRIBUTION OF HMDA LOANS PERCENT OF LOANS ORIGINATED			
TYPE OF GEOGRAPHY	Main Street Bank <u>1999</u>	Main Street Bank <u>1998</u>	MARKET <i>1998</i>
Low-Income	0%	0%	0%
Moderate-Income	1%	1%	7%
Middle-Income	65%	66%	77%
Upper-Income	34%	33%	16%
All Geographies	100%	100%	100%

In assessing the bank's penetration levels, consideration was given to economic, demographic, and other factors that exist in the assessment area. First and most significantly, approximately 10% of the population reside in the area's three moderate-income tracts. Second, the limited amount of available housing in the moderate-income areas affects the bank's ability to generate mortgage loans. Of the 66,457 available housing units in the assessment area, 8,046 units are located in the moderate-income geographies, with 63% of these units owner-occupied. The majority of available housing units are located in the assessment area's middle-income geographies. In the middle-income geographies, there are 51,469 available housing units with 72% owner-occupied. In the upper-income geographies, there are 6,942 available housing units with 77% owner-occupied.

#### Small Business Lending in the Schuylkill County Assessment Area

MSB originated 45 small business loans in the Schuylkill County assessment area during 1999, in an aggregate amount of \$4.5 million. Business demographics revealed that in 1999, a total of 3,193 small businesses were located within the Schuylkill County assessment area. Of this total, 11% of small businesses were located in moderate-income tracts, 80% in middle-income tracts, and 9% in upper income tracts. A comparison was made of the number and dollar volume of the bank's small business loans by geography to the number of small businesses located in each geography. As noted in the chart, 62% of the bank's small business loans were extended in middle-income geographies, and 38% in upper-income geographies. No small business loans were originated in the moderate-income geographies of the assessment area.

SCHUYLKILL COUNTY ASSESSMENT AREA 1999 SMALL BUSINESS LOANS - DISTRIBUTION BY CENSUS TRACT				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	0	0%	0	0%
Moderate-Income	0	0%	0	0%
Middle-Income	28	62%	3,076	69%
Upper-Income	17	38%	1,379	31%
All Geographies	45	100%	4,455	100%

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### LENDING TEST (Continued)

#### Geographic Distribution in Relation to Assessment Area Demographics

The following table compares the demographics of the assessment area with the bank's distribution of loans according to geographic designation.

GEOGRAPHY TYPE	SCHUYLKILL COUNTY SMALL BUSINESS BY GEOGRAPHIC DESIGNATION	1999 SMALL BUSINESS LOAN GEOGRAPHIC DISTRIBUTION	
		% of #	% of \$
Low-Income	0%	0%	0%
Moderate-Income	11%	0%	0%
Middle-Income	80%	62%	69%
Upper-Income	9%	38%	31%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The analysis of the geographic distribution of the bank's small business loans in the Schuylkill County assessment area reflects a poor penetration to the moderate-income geographies of the assessment area.

#### Home Mortgage Lending in the Philadelphia Assessment Area

During 1998, MSB originated 14 HMDA loans aggregating \$2.2 million in the Philadelphia assessment area, not a significant number. None of these loans were originated in low- or moderate-income geographies. In 1999, the bank originated 184 loans, aggregating \$22.5 million. The following tables show the geographic distribution of the bank's 1999 HMDA loans.

PHILADELPHIA ASSESSMENT AREA 1999 HMDA GEOGRAPHIC DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF GEOGRAPHY	Number	Percent	\$000's	Percent
Low-Income	0	0%	0	0%
Moderate-Income	9	5%	\$456	2%
Middle-Income	103	56%	\$10,981	49%
Upper-Income	72	39%	\$11,084	49%
<b>All Geographies</b>	<b>184</b>	<b>100%</b>	<b>\$22,521</b>	<b>100%</b>

A review of the HMDA data reveals no lending in the low-income geographies of the assessment area. Lending penetration in the moderate-income geographies is considered good when compared to the demographics of the assessment area.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Geographic Distribution in Relation to Assessment Area Demographics**

The following table compares the population demographics with the geographic distribution of the bank's home mortgage loans:

GEOGRAPHY TYPE	PHILADELPHIA ASSESSMENT AREA POPULATION	1999 HMDA GEOGRAPHIC DISTRIBUTION	
		% of #	% of \$
Low-Income	1%	0%	0%
Moderate-Income	3%	5%	2%
Middle-Income	41%	56%	49%
Upper-Income	55%	39%	49%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

While the table shows that there was no lending in the assessment area's low-income geographies, only 1% of the population resides in these geographies. Moreover, the limited amount of available housing in the low-income areas impacts the bank's ability to generate mortgage loans. Of the 489,459 available housing units in the assessment area, less than one percent, or 1,264 units, are located in low-income geographies. Of this amount 493, or 39%, are owner-occupied.

The geographic distribution of the bank's HMDA loans reflects a good penetration in the moderate-income geographies of the assessment area. Although 3% of the population resides in such areas, 5% of all HMDA loans extended in this assessment area were to moderate-income geographies.

#### **Small Business Lending in the Philadelphia Assessment Area**

MSB originated 26 small business loans in the Philadelphia assessment area during 1999, in an aggregate amount of \$3.7 million.

Business demographics revealed that in 1999, a total of 15,147 small businesses were located within the Philadelphia assessment area. Of this total, less than 1% of small businesses were located in low-income geographies, 7% in moderate-income geographies, 34% in middle-income geographies, and 58% in upper-income geographies. The number and dollar volume of the bank's small business loans by geography were compared to the number of small businesses located in each of the geographies. As noted in the chart, no small business loans were originated in low- or moderate-income geographies, but 35% were originated in middle-income geographies, and 65% were originated in upper-income geographies.

An analysis of the bank's small business lending activity revealed the following geographic distribution:

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **LENDING TEST (Continued)**

#### **Small Business Lending in the Philadelphia Assessment Area (continued)**

<b>PHILADELPHIA ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS – DISTRIBUTION BY CIENSUS TRACT</b>				
<b>Type of Geography</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income</b>	0	0%	0	0%
<b>Moderate-Income</b>	0	0%	0	0%
<b>Middle-Income</b>	9	35%	\$641	17%
<b>Upper-Income</b>	17	65%	\$3,084	83%
<b>All Geographies</b>	<b>26</b>	<b>100%</b>	<b>\$3,725</b>	<b>100%</b>

#### **Geographic Distribution in Relation to Assessment Area Demographics**

The table below compares the demographics of the assessment area with the bank's distribution of loans according to geographic designation.

<b>GEOGRAPHY TYPE</b>	<b>PHILADELPHIA SMALL BUSINESS BY GEOGRAPHIC DESIGNATION</b>	<b>1999 SMALL BUSINESS LOAN GEOGRAPHIC DISTRIBUTION</b>	
		<b>% of #</b>	<b>% of \$</b>
<b>Low-Income</b>	1%	0%	0%
<b>Moderate-Income</b>	7%	0%	0%
<b>Middle-Income</b>	34%	35%	17%
<b>Upper-Income</b>	58%	65%	83%
<b>All Geographies</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

The overall geographic distribution of home mortgage and small business loans reflects an adequate penetration throughout the Philadelphia assessment area.

### **BORROWER DISTRIBUTION**

#### **Borrowers of Different Incomes**

An analysis of the distribution of loans was conducted to determine the dispersion of loans among borrowers of different income levels within the bank's assessment areas. The bank's home mortgage lending profile exhibits a good distribution of credit among borrowers of different income levels. Although the lending levels are not comparable to the percentage of low- and moderate-income borrowers that reside in the assessment area in each instance, consideration must be given to the economic and competitive factors that are prevalent in the region.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **BORROWER DISTRIBUTION (Continued)**

#### **Berks/Lebanon County Assessment Area**

According to the U.S. Department of Housing and Urban Development (HUD), the 1999 median family income for the Reading MSA was \$48,200. HUD has established the following income demographic categories as levels of income for statistical purposes.

Low-Income:	Less than 50% of the Median MSA Income Less than \$24,100
Moderate-Income:	From 50% to less than 80% of the Median MSA Income From \$24,100 to less than \$38,560
Middle-Income:	From 80% to less than 120% of the Median MSA Income From \$38,560 to less than \$57,840
Upper-Income:	Equal to or greater than 120% of the Median MSA Income Equal to or greater than \$57,840

An analysis of the bank's 1998 and 1999 HMDA data revealed the following income distribution for loans within the assessment area:

<b>BERKS/LEBANON ASSESSMENT AREA 1998 HMDA BORROWER INCOME DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS</b>				
<b>TYPE OF BORROWER</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income Families</b>	71	7%	\$3,357	4%
<b>Moderate-Income Families</b>	170	17%	\$10,346	11%
<b>Middle-Income Families</b>	286	29%	\$24,273	27%
<b>Upper-Income Families</b>	455	46%	\$51,659	57%
<b>Borrower Income Not Available</b>	9	1%	\$1,017	1%
<b>All Borrowers</b>	<b>991</b>	<b>100%</b>	<b>\$90,652</b>	<b>100%</b>

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

**BORROWER DISTRIBUTION (Continued)**

**Berks/Lebanon County Assessment Area (continued)**

BERKS/LEBANON ASSESSMENT AREA 1999 HMDA BORROWER INCOME DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF BORROWER	Number	Percent	\$000's	Percent
Low-Income Families	82	9%	\$3,663	4%
Moderate-Income Families	162	19%	\$10,416	13%
Middle-Income Families	245	28%	\$21,026	25%
Upper-Income Families	368	42%	\$46,339	56%
Borrower Income Not Available	19	2%	\$1,874	2%
<b>All Borrowers</b>	<b>876</b>	<b>100%</b>	<b>\$83,318</b>	<b>100%</b>

**Borrower Income Distribution in Relation to Assessment Area Demographics**

The distribution of loans among borrowers of different income levels is considered good, despite obstacles to lending such as an aging population and a high poverty rate in Reading. Approximately 16% of the population are aged 65 and over and 18% of families live below the poverty level. Additionally, community contacts have indicated that significant increases in the city's crime rate have made it difficult for community organizations and banks to promote home ownership in Reading.

Of the 96,370 families in the assessment area, 35% are designated as low- or moderate-income. In 1998, 24% of the bank's residential mortgage loans were made to low- or moderate-income borrowers and in 1999 the lending level increased to 28%. Bank management has attempted to improve its level of lending in the assessment area, through the development of special affordable housing programs. For a discussion of these programs, refer to page 35, Community Development Lending.

The following tables compares the demographics of the Berks/Lebanon assessment area with the bank's distribution of loans to borrowers of different incomes.

	BERKS/LEBANON ASSESSMENT AREA POPULATION BY INCOME DISTRIBUTION	1998 HMDA BORROWER INCOME DISTRIBUTION	
		% of #	% of \$
Low-Income Families	16%	7%	4%
Moderate-Income Families	19%	17%	11%
Middle-Income Families	28%	29%	27%
Upper-Income Families	37%	46%	57%
Borrowers' Income Not Available	-----	1%	1%
<b>All Families</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

**BORROWER DISTRIBUTION (Continued)**

**Berks/Lebanon County Assessment Area (continued)**

	BERKS/LEBANON ASSESSMENT AREA POPULATION BY INCOME DISTRIBUTION	1999 HMDA BORROWER INCOME DISTRIBUTION	
		% of #	% of \$
Low-Income Families	16%	9%	4%
Moderate-Income Families	19%	19%	13%
Middle-Income Families	28%	28%	25%
Upper-Income Families	37%	42%	56%
Borrowers' Income Not Available	----	2%	2%
<b>All Families</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

**Schuylkill County Assessment Area**

According to HUD, the 1999 median family income for the Non-Metropolitan Areas in Pennsylvania was \$36,700. HUD has established the following income demographic categories as levels of income for statistical purposes.

Low-Income: Less than 50% of the Median MSA Income  
Less than \$18,350

Moderate-Income: From 50% to less than 80% of the Median MSA Income  
From \$18,350 to less than \$29,360

Middle-Income: From 80% to less than 120% of the Median MSA Income  
From \$29,360 to less than \$44,040

Upper-Income: Equal to or greater than 120% of the Median MSA Income  
Equal to or greater than \$44,040

An analysis of the 1998 and 1999 HMDA data revealed the following income distribution for loans within the Schuylkill County assessment area:

SCHUYLKILL COUNTY ASSESSMENT AREA 1998 HMDA BORROWER INCOME DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF BORROWER	Number	Percent	000's	Percent
Low-Income Families	7	3%	\$335	2%
Moderate-Income Families	35	15%	\$1,586	10%
Middle-Income Families	60	26%	\$3,867	24%
Upper-Income Families	130	56%	\$10,542	65%
Borrowers' Income Not Available	0	0%	\$0	0%
<b>All Borrowers</b>	<b>232</b>	<b>100%</b>	<b>\$16,330</b>	<b>100%</b>

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Schuylkill County Assessment Area (continued)**

<b>SCHUYLKILL COUNTY ASSESSMENT AREA 1999 HMDA BORROWER INCOME DISTRIBUTION NUMBER AND DOLLAR AMOUNTS OF LOANS</b>				
<b>TYPE OF BORROWER</b>	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Low-Income Families</b>	7	2%	\$339	2%
<b>Moderate-Income Families</b>	48	16%	\$2,510	11%
<b>Middle-Income Families</b>	86	29%	\$5,316	23%
<b>Upper-Income Families</b>	153	51%	\$14,234	62%
<b>Borrowers' Income Not Available</b>	7	2%	\$393	2%
<b>All Borrowers</b>	<b>301</b>	<b>100%</b>	<b>\$22,792</b>	<b>100%</b>

#### Borrower Income Distribution in Relation to Assessment Area Demographics

An analysis of the distribution of home mortgage loans to low-income families compared to the demographics of the assessment area indicates that lending levels are not comparable to the percentage of low-income families residing in the assessment area. Of the 42,664 families in the assessment area, 7,757 or 18% are designated as low-income. For 1998, 3% of the bank's home mortgage loans were to low-income families, and in 1999, lending to low-income families declined to 2%. The bank's modest level of penetration among low-income families may be partially attributed to the demographics of the assessment area.

Of the 7,757 families designated as low-income, 43% are below the poverty level and 84% reside in middle- and upper-income geographies, where a majority of the available housing is located. Although there is not a great disparity between the median housing values in middle and upper-income geographies and that in moderate-income geographies, there is a limited supply of affordable housing units available for purchase by low-income families.

The limited supply of affordable housing also presents an obstacle to home ownership for moderate-income families. However, the bank's distribution of loans to moderate-income families in comparison to the demographics of the assessment area is considered good. In the assessment area, 7,998 families, or 19%, are designated as moderate-income. In 1998, 15% of HMDA loans were to moderate-income families and in 1999 lending to such families increased to 16%.

In an effort to enhance its overall mortgage lending profile, bank management has established lending programs that promote affordable housing for low- and moderate-income families. For additional information, refer to page 35, Innovative and Flexible Lending Practices.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Schuykill County Assessment Area (continued)**

##### Borrower Income Distribution in Relation to Assessment Area Demographics

The tables below compares the demographics of the assessment area with the institution's distribution of HMDA loans to borrowers of different incomes.

GEOGRAPHY TYPE	SCHUYKILL COUNTY ASSESSMENT AREA POPULATION BY INCOME DISTRIBUTION	1998 HMDA BORROWER INCOME DISTRIBUTION	
		% of #	% of \$
Low-Income Families	18%	3%	2%
Moderate-Income Families	19%	15%	10%
Middle-Income Families	25%	26%	24%
Upper-Income Families	38%	56%	65%
<b>All Families</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

GEOGRAPHY TYPE	SCHUYKILL COUNTY ASSESSMENT AREA POPULATION BY INCOME DISTRIBUTION	1999 HMDA BORROWER INCOME DISTRIBUTION	
		% of #	% of \$
Low-Income Families	18%	2%	2%
Moderate-Income Families	19%	16%	11%
Middle-Income Families	25%	29%	23%
Upper-Income Families	38%	51%	63%
Borrower Income Not Available	N/A	2%	2%
<b>All Families</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

#### **Borrower Lending in the Philadelphia Assessment Area**

According to HUD, the 1999 median family income for the Philadelphia MSA was \$55,600. HUD has established the following income demographic categories as levels of income for statistical purposes.

Low-Income: Less than 50% of the Median MSA Income  
Less than \$27,800

Moderate-Income: From 50% to less than 80% of the Median MSA Income  
From \$27,800 to less than \$44,480

Middle-Income: From 80% to less than 120% of the Median MSA Income  
From \$44,480 to less than \$66,720

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Borrower Lending in the Philadelphia Assessment Area (continued)**

Upper-Income: Equal to or greater than 120% of the Median MSA Income  
 Equal to or greater than \$66,720

An analysis of the 1999 HMDA data revealed the following distribution of loans by borrower income in the bank's Philadelphia assessment area:

PHILADELPHIA ASSESSMENT AREA 1999 HMDA LOANS – DISTRIBUTION BY BORROWER INCOME NUMBER AND DOLLAR AMOUNTS OF LOANS				
TYPE OF BORROWER	Number	Percent	\$000's	Percent
Low-Income Families	9	5%	\$588	3%
Moderate-Income Families	31	17%	\$1,995	9%
Middle-Income Families	59	32%	\$6,467	29%
Upper-Income Families	81	44%	\$12,282	54%
Borrowers' Income Not Available	4	2%	\$1,189	5%
<b>All Borrowers</b>	<b>184</b>	<b>100%</b>	<b>\$22,521</b>	<b>100%</b>

In 1999, the bank's level of housing related lending increased significantly from the prior year. During 1998, MSB originated 14 residential mortgages in the Philadelphia assessment area. Of these loans, three were originated to moderate-income borrowers, four to middle-income borrowers and seven to upper-income borrowers.

#### Borrower Income Distribution in Relation to Assessment Area Demographics

The table below compares the demographics of the assessment area with the institution's distribution of HMDA loans to borrowers of different incomes.

GEOGRAPHY TYPE	PHILADELPHIA ASSESSMENT AREA POPULATION BY INCOME DISTRIBUTION	1999 HMDA BORROWER INCOME DISTRIBUTION	
		% of #	% of \$
Low-Income Families	10%	5%	3%
Moderate-Income Families	15%	17%	9%
Middle-Income Families	23%	32%	29%
Upper-Income Families	52%	44%	54%
Borrowers' Income Not Available	----	2%	5%
<b>All Families</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Borrower Lending in the Philadelphia Assessment Area (continued)**

##### Borrower Income Distribution in Relation to Assessment Area Demographics

Overall, the bank's distribution of loans among borrowers of different income levels reflects a good penetration. Of the 344,046 families in the assessment area, 84,701, or 25%, are designated as low- or moderate-income. In 1999, 22% of the bank's home mortgage loans were to low- and moderate-income borrowers.

##### Businesses of Different Incomes

An analysis of the bank's small business lending revealed that the distribution of loans to small businesses was consistent with the institution's asset size, lending capacity, and business objectives. Overall, the bank's loan distribution reflects a good penetration among business customers of different sizes.

For the purpose of the CRA analysis, a small business loan is defined as a commercial loan with an origination amount of \$1 million or less. Small business loans are further quantified to identify those loans to businesses with gross annual revenues of \$1 million or less. A review of Schedule RC-C Part II (Loans to Small Farms and Small Businesses) of the bank's Consolidated Reports of Condition and Income as of June 30, 2000, revealed that 65% of commercial loans were designated as small business loans, as detailed in the following chart:

COMMERCIAL LOAN PORTFOLIO		
	AMOUNT OUTSTANDING AS OF JUNE 30, 2000 (\$000)	PERCENT
Loans with original amounts of \$100,000 or Less	\$42,796	13%
Loans with original amounts of more than \$100,000 through \$250,000	\$52,805	17%
Loans with original amounts of more than \$250,000 through \$1,000,000	\$111,087	35%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>\$206,688</b>	<b>65%</b>
Loans with original amounts of Greater than \$1,000,000	\$110,693	35%
<b>TOTAL COMMERCIAL LOANS</b>	<b>\$317,381</b>	<b>100%</b>

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Small Business Lending in the Berks/Lebanon Counties Assessment Area**

The next table shows MSB's small business loan originations within the Berks/Lebanon Counties assessment area, as reported for purposes of the CRA for the calendar year 1999:

<b>BERKS/LEBANON COUNTIES ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
Loans with original amounts of \$100,000 or Less	45	82%	\$1,887	37%
Loans with original amounts of more than \$100,000 through \$250,000	6	11%	\$1,010	20%
Loans with original amounts of more than \$250,000 through \$1,000,000	4	7%	\$2,172	43%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>55</b>	<b>100%</b>	<b>\$5,069</b>	<b>100%</b>

Business demographic data revealed that there were 10,348 businesses in the Berks/Lebanon assessment area in 1999. Of these businesses, 9,127, or 88%, had revenues of less than \$1 million. The following table shows that of the 55 loans originated by MSB during 1999, 56% were originated to businesses with gross annual revenues of \$1 million or less.

<b>BERKS/LEBANON COUNTIES ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
<b>BUSINESS REVENUE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
Loans to Business with Revenues of \$1 Million or Less	31	56.4%	\$1,515	30%
Loans to Business with Revenues of more than \$1 Million	24	43.6%	\$3,554	70%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>55</b>	<b>100%</b>	<b>\$5,069</b>	<b>100%</b>

MSB originated 11 additional loans to small businesses that were not reported as small business loans because they were secured by residential real estate. Such loans do not meet the definition of small business loans as specified in the Consolidated Reports of Condition and Income. These 11 loans aggregated \$850 thousand, and 54% were originated to businesses with gross annual revenues of \$1 million or less. The bank also reported one small farm loan totaling \$20,000.

#### **Small Business Lending in the Schuylkill County Assessment Area**

The table below shows MSB's small business loan originations within the Schuylkill County assessment area, as reported for purposes of CRA for calendar year 1999:

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **BORROWER DISTRIBUTION (Continued)**

#### **Small Business Lending in the Schuylkill County Assessment Area (continued)**

<b>SCHUYLKILL COUNTY ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
Loans with original amounts of \$100,000 or Less	31	69%	\$1,434	32%
Loans with original amounts of more than \$100,000 through \$250,000	11	24%	\$1,986	45%
Loans with original amounts of more than \$250,000 through \$1,000,000	3	7%	\$1,035	23%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>45</b>	<b>100%</b>	<b>\$4,455</b>	<b>100%</b>

Business demographic data revealed that there were 3,520 businesses in the Schuylkill County assessment area in 1999. Of these businesses, 3,193, or 91% had sales of less than \$1 million. The following table shows that of the 45 small business loans originated by the bank in 1999, 42% were to businesses with gross annual revenues of \$1 million or less.

<b>SCHUYLKILL COUNTY ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
<b>BUSINESS REVENUE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
Loans to Business with Revenues of \$1 Million or Less	19	42%	\$1,427	32%
Loans to Business with Revenues of more than \$1 Million	26	58%	\$3,028	68%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>45</b>	<b>100%</b>	<b>\$4,455</b>	<b>100%</b>

#### **Small Business Lending in the Philadelphia Assessment Area**

The next table shows the bank's small business loan originations within the Philadelphia assessment area as reported for 1999:

<b>PHILADELPHIA ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
Loans with original amounts of \$100,000 or Less	18	69%	\$688	19%
Loans with original amounts of more than \$100,000 through \$250,000	3	12%	\$569	15%
Loans with original amounts of more than \$250,000 through \$1,000,000	5	19%	\$2,468	66%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>26</b>	<b>100%</b>	<b>\$3,725</b>	<b>100%</b>

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **BORROWER DISTRIBUTION (Continued)**

#### **Small Business Lending in the Philadelphia Assessment Area (continued)**

Business demographic data revealed that there were 17,680 businesses in the Philadelphia assessment area in 1999. Of these businesses, 15,147, or 86% had sales of less than \$1 million. Of the 26 small business loans originated by MSB during 1999, 69% were originated to businesses with gross annual revenues of \$1 million or less.

The following table quantifies small business lending based upon the annual revenue of the business.

<b>PHILADELPHIA ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOANS</b>				
<b>BUSINESS REVENUE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
<b>Loans to Business with Revenues of \$1 Million or Less</b>	18	69%	\$2,337	63%
<b>Loans to Business with Revenues of more than \$1 Million</b>	8	31%	\$1,388	37%
<b>TOTAL SMALL BUSINESS LOANS</b>	<b>26</b>	<b>100%</b>	<b>\$3,725</b>	<b>100%</b>

In addition to the loans listed in the chart, the bank originated two loans aggregating \$1.5 million to businesses with gross annual revenues of \$1 million or less. Such loans were not reported as small business loans because they were secured by residential real estate and did not meet the definition of a small business loan.

### **COMMUNITY DEVELOPMENT LENDING**

MSB participates in economic development projects throughout its community and has made an adequate level of community development loans.

Since the previous examination, the bank originated the following seven community development loans, aggregating \$488,000, which financed various community development initiatives:

- Two loans aggregating \$250,000 to finance the development of an 86-unit housing complex for low- and moderate-income elderly persons in Reading.
- Three loans, aggregating \$113,000 were extended to non-profit organizations in Pottsville, PA, for the renovation and maintenance of numerous residential properties occupied by low- and moderate-income individuals.
- Two loans aggregating \$125,000 were made to a non-profit organization in Reading for the purchase of equipment. The organization provides residential facilities, workshops and training to low- and moderate-income individuals with disabilities.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **COMMUNITY DEVELOPMENT LENDING**

#### **Innovative and Flexible Lending Practices**

MSB makes use of innovative and flexible lending practices to address the credit needs of its assessment area, including low- and moderate-income individuals and geographies. The bank is an active participant in the following lending programs:

#### **Community Partnership Program**

The bank's Community Partnership Program is designed to encourage home ownership in economically disadvantaged neighborhoods throughout the bank's market area. The mortgage loan program includes a low down payment and does not require the purchase of private mortgage insurance. The program also offers reduced closing fees and requires homebuyers to attend a free credit-counseling program. Since the previous examination, the bank originated 29 loans, aggregating \$1.1 million. The bank has allocated \$2 million for this program for 2000.

#### **First Time Home Purchase Program**

This program is available to first time homebuyers for loan amounts of less than \$30,000 and with loan terms of 15 years or less. In addition to homeownership counseling the program also provides grants to homebuyers to cover all or a portion of the closing costs. Since the previous examination, the bank originated loans aggregating \$413,000 under this program.

#### **Small Business Lending**

To enhance its small business lending MSB participates in the following programs:

**Lehigh Valley Small Business Loan Pool** - A consortium of 14 financial institutions and the Small Business Development Center of Lehigh University has developed a program to provide loans to small businesses in Lehigh and Northampton counties. The maximum loan amount is \$100,000, and may be used to purchase or renovate real estate or to provide working capital for qualified businesses.

**Bethlehem Economic Development Corporation Loan Program** - This program provides financing to foster the development, renewal and improvement of businesses in Bethlehem. Priority is given to projects that have the ability to create substantial levels of employment. Ten local financial institutions are participating in the program. MSB has committed \$100,000 to the program.

#### **U.S. Small Business Administration**

MSB has participated in the lending programs of the U.S. Small Business Administration (SBA). Since the previous examination, the bank originated five SBA loans totaling \$806,000.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **RESPONSIVENESS**

An analysis was conducted to determine the institution's record of serving the credit needs of the most economically disadvantaged segments of its assessment areas, low-income borrowers, and very small businesses. The analysis revealed that MSB exhibited an adequate record of serving the credit needs of highly disadvantaged areas and borrowers within its assessment area, consistent with safe and sound banking practices.

### **INVESTMENT TEST**

The investment test evaluates a financial institution's level of qualified investments that serve low- and moderate-income geographies and individuals. The test also evaluates the innovativeness and complexity of such investments. Qualified investments made prior to the previous examination and which remain outstanding are also considered under the test. For purposes of the CRA, the qualified investments include a lawful investment, deposit, membership share, or grant that has community development as its primary purpose.

Bank performance under the investments test is rated needs to improve.

An analysis of the bank's level and use of qualified investments revealed that it has a poor level of qualified community development investments and grants. MSB invested \$230,000 in two municipal bond offerings of a school district located in a moderate-income census tract within the bank's Schuylkill County assessment area. The proceeds of these issues were used to fund capital improvements to various school facilities within the district. In the context of the bank's asset size and overall operating capacity, the present dollar volume of such investments is deemed modest.

In addition to investments, the bank has made grants to local community organizations primarily engaged in providing assistance to low- and moderate-income individuals or neighborhoods. The goals of these organizations and agencies include the development and maintenance of housing, the promotion of economic development, or the provision of services, such as job training or other social services to low- and moderate-income families or in low- and moderate-income geographies. Since the previous examination, MSB has donated funds to these organizations. Based upon interviews with community organizations and government officials, these donations have directly addressed the affordable housing and credit counseling needs of the community.

### **Use of Innovative and/or Complex Investments to Support Community Development Initiatives**

The bank occasionally uses innovative or complex investments to support community development initiatives. MSB has developed an innovative credit counseling referral program. The bank contracts with local certified credit counseling agencies to provide credit counseling services to all loan applicants under its Community Lending Program. The credit counseling services are performed at the bank's expense.

### **SERVICE TEST**

The service test evaluates the financial services provided by a financial institution using the following criteria:

- the accessibility of delivery mechanisms within an assessment area, including the geographic distribution of the institution's branch offices, and its alternative delivery mechanisms,

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **SERVICE TEST (Continued)**

- the effect that branch openings and closings have on low- and moderate-income geographies and low- and moderate-income persons in the assessment area,
- the reasonableness of business hours and services in addressing the banking needs in the assessment area, and
- the extent to which an institution provides community development services.

Bank performance under the service test is rated high satisfactory.

### **Retail Banking Services**

#### **Accessibility of Delivery Systems**

A review of the bank's retail banking services disclosed that its branch delivery systems are reasonably accessible to essentially all portions of the bank's assessment area. Services do not vary in a way that inconveniences certain portions of the assessment area, particularly low- and moderate-income geographies or low- and moderate-income individuals.

MSB offers retail services through 45 full-service branch offices. Of the 45 full-service branches, three are located in moderate-income geographies, 31 in middle-income geographies, and 11 in upper-income geographies. Main Street Bank operates 47 automated teller machines (ATM) which are linked with MAC, a regional ATM network, and Cirrus, a national ATM network.

The bank's full service offices are summarized by geography and indicated on the map as follows.

<b>Geography Type</b>	<b>Number of Branch Offices</b>	<b>Percent</b>
Low-Income	-0-	0%
Moderate-Income	3	7%
Middle-Income	31	69%
Upper-Income	11	24%
<b>TOTALS</b>	<b>45</b>	<b>100%</b>

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **SERVICE TEST (Continued)**

#### **Map of Branch Locations**

#### **Alternative Retail Banking Services and Alternative Methods of Delivering Retail Banking Services**

To augment traditional banking services, MSB developed a product known as 24-Hour Phone Banking. This product allows customers to verify account balances and transfer funds to and from various accounts. The bank also operates a fully transactional Internet web site, which can be accessed at [www.mainstreetbankcorp.com](http://www.mainstreetbankcorp.com). The web site allows retail and business customers to check account balances, review transactions, transfer funds, make loan payments, and pay bills.

#### **Branch Closing Policy**

In accordance with Section 42 of the Federal Deposit Insurance Corporation Improvement Act, the bank maintains procedures to assess any adverse effect that an office or branch closure would have upon any segment of its assessment areas. Additionally, a formal branch closing policy has been adopted that provides for an objective assessment of any branch closure, including an evaluation of continuity of services and consideration of alternative solutions. The policy also provides for sufficient advance notice to the community or community segment as applicable.

The bank's record of opening and closing branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate-income geographies to low- and moderate-income individuals. MSB opened six full-service branches since the previous examination. Two branches are located in upper-income geographies and four in middle-income geographies. To accommodate the banking needs of its customers and to conform to the general business hours within its assessment areas, management periodically reviews and changes the business hours for its offices. As a result of these reviews, bank services do not vary in a manner that inconveniences certain portions of its assessment areas, particularly low- and moderate-income geographies or low- and moderate-income individuals.

## **COMMUNITY DEVELOPMENT SERVICES**

Main Street Bank provides a relatively high level of community development services, most notably:

### **Deposit Products**

Free checking accounts are offered to all customers, with no required minimum balance and no monthly maintenance fees.

### **Technical Assistance**

- A bank employee developed a seminar titled, "Business Basics: Finance Considerations for Small Businesses." The seminar was presented at the Small Business Development Center at Lehigh University.



## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **COMMUNITY DEVELOPMENT SERVICES (Continued)**

#### **Technical Assistance**

- A bank officer is a Director of the Lancaster, PA chapter of Habitat for Humanity, an international organization that constructs or rehabilitates homes for occupancy by low-income families.
- A bank officer is a Director of the Schuylkill Economic Development Corporation. The organization manages economic programs that are designed to revitalize economically distressed areas in Schuylkill County.
- A bank officer is a member of the Finance Committee of the Pottsville Area Development Corporation. The primary goal of the organization is to improve the economic condition of the area by attracting and retaining businesses in downtown Pottsville. To stimulate growth in the low- and moderate- income communities, the organization uses a revolving loan fund to provide grants and subsidies to the businesses and apartment owners located in these areas.
- A bank officer serves as a consultant to the Reading-Berks Human Relations Council. The Council provides housing and economic education programs targeted to low- and moderate-income individuals. The Council also administers portions of the Community Development Block Grant Program for the city of Reading. This federally-sponsored program provides affordable housing and other economic opportunities, primarily to low- and moderate-income persons.
- A bank employee provides financial expertise to the H.O.M.E.S. Coalition, a Reading-based organization that promotes the development of affordable housing for low- and moderate-income persons.
- A bank officer is a Director of Schuylkill County Welfare Reform, an organization that provides educational and financial services to individuals that formerly received public assistance.

#### **ADDITIONAL ASSESSMENT AREAS**

A full-scope analysis of the bank's CRA performance in the following five assessment areas was not performed due to a lack of significant lending activity since the previous evaluation.

#### **Allentown-Bethlehem-Easton MSA Assessment Area**

The Allentown/Bethlehem/Easton MSA assessment area consists of 51 census tracts located in Lehigh County. Of the 51 geographies, four are designated as low-income, eight as moderate-income, 27 as middle-income and 12 as upper-income. The bank operates five branch offices in this assessment area, including three in Allentown, one in Emmaus, and one in Macungie. None of the offices are located in low- or moderate-income geographies.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **ADDITIONAL ASSESSMENT AREAS (Continued)**

#### **Allentown-Bethlehem-Easton MSA Assessment Area (continued)**

The total population in the assessment area is 197,316. Of this total, 3% reside in low-income geographies, 10% in moderate-income geographies, 55% in middle-income geographies, and 32% in upper-income geographies. Of the 76,764 households in the assessment area, 53,808 are families. Of these families, 15% are designated as low-income, 18% moderate-income, 26% middle-income and 41% upper-income. The median housing value in the assessment area is \$100,710, which exceeds the median value of the MSA and the state at \$97,045 and \$69,075, respectively.

Bank lending activity in this assessment area was limited. In 1999, ten residential mortgage loans were originated for an aggregate amount of \$1.5 million. Of these loans, one was located in a moderate-income geography, three in middle-income geographies, and six in upper-income geographies. A review of the distribution of the loans among borrowers of different incomes shows that the bank originated one loan to a low-income borrower, three loans to middle-income borrowers, and six loans to upper-income borrowers. In 1999, the bank made one small business loan to a business located in a middle-income geography.

Comments received from community organizations regarding the CRA performance of MSB in this assessment area indicated limited lending and investment activity. Bank management acknowledged that lending levels were modest, but recent efforts have been made to enhance home mortgage and small business lending in the assessment area. To support affordable housing initiatives, the bank made grants in Lehigh County to organizations involved in homeownership and credit counseling programs. The bank has also participated in small business lending programs sponsored by the Lehigh Valley Small Business Loan Pool and the Bethlehem Economic Development Corporation Loan Program.

#### **Dauphin County Assessment Area**

The Dauphin County assessment area, located in the Harrisburg/Lebanon/Carlisle MSA, consists of six geographies located in Dauphin County. Of the six geographies, one is designated as moderate-income and five are middle-income. In this assessment area, the bank operates one branch office located in a middle-income geography in Williamstown, Dauphin County. The population totals 26,446, with 13% residing in the moderate-income geography and 87% in the middle-income geographies. Of the 9,909 households in the assessment area, 7,533 are families. Of these 7,533 families, 17% are designated as low-income, 24% are moderate-income, 30% are middle-income, and 29% are upper-income. The median housing value in the assessment area is \$57,997, which is below the state median at \$69,075 and the MSA median value of \$75,013.

In 1999, the bank originated one home mortgage totaling \$29,000. The loan was originated to a low-income borrower residing in a middle-income geography. The bank originated six small business loans, aggregating \$2.8 million to businesses located in middle-income geographies.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)**

### **ADDITIONAL ASSESSMENT AREAS (Continued)**

#### **Lancaster Assessment Area**

The bank has designated a portion of the Lancaster MSA as its assessment area. Of the 28 geographies in the assessment area, 25 are middle-income and three are upper-income. The bank operates one branch office that is located in a middle-income geography. The total population is 130,591, with 87% of people residing in middle-income geographies and 13% in upper-income geographies. Of the 36,517 families in the assessment area, 12% are low-income, 18% are moderate-income, 30% are middle-income, and 40% are upper-income.

The median housing value in the assessment area is \$94,454, which is above the state at \$69,075 and the MSA at \$89,330.

Bank lending activity in Lancaster was limited. In 1999, the bank originated five home mortgage loans, aggregating \$632,000. Of the five loans, four were in middle-income geographies and one in an upper-income geography. A review of the distribution of loans among borrowers of different incomes disclosed that the bank originated one loan to a low-income borrower, one loan to middle-income borrower, and two loans to upper-income borrowers. In one instance the income level of the borrower was not available. No small business loans were originated in the assessment area.

#### **Monroe/Northampton Counties Assessment Area**

The assessment area consists of 14 geographies, five located in Monroe County and nine in Northampton County. Of these geographies, ten are designated as middle-income and four as upper-income. MSB operates one branch office that is located in Wind Gap, Northampton County, a middle-income geography. The assessment area's population totals 87,045, with 57% of the people residing in middle-income geographies and 43% living in upper-income geographies. There are 24,733 families in the assessment area. Of these families, 13% are designated as low-income, 17% are moderate-income, 24% are middle-income and 46% are upper-income. The median housing value in this assessment area is \$115,488, which is significantly above the state housing value of \$69,075.

Bank lending activity was limited in this assessment area. In 1999, the bank originated 26 home mortgage loans, aggregating \$4.1 million. Of the 26 loans originated, five were in middle-income geographies and 21 were in upper-income geographies. A review of the distribution of loans among borrowers of different incomes shows that the bank originated two loans to moderate-income borrowers, four loans to middle-income borrowers, and 20 loans to upper-income borrowers. The bank purchased one small business loan that had been originated to a business located in an upper-income geography in the assessment area.

#### **New Jersey Assessment Area**

The New Jersey assessment area comprises 41 geographies located in Hunterdon and Mercer Counties in eastern central New Jersey. Hunterdon County is part of the Middlesex-Somerset-Hunterdon MSA and Mercer County is located in the Trenton MSA. These 41 geographies are adjacent to Bucks County, PA, in the Philadelphia MSA. The bank operates a branch office located in Lambertville, Hunterdon County, which is a middle-income geography. No home mortgage or small business loans were originated in the assessment area during 1999.

## **COMPLIANCE WITH ANTI DISCRIMINATION LAWS**

A review of the credit practices and policies of MSB revealed no evidence of any prohibited policies or practices such as prescreening, or the discouragement of applicants for any types of credit offered by the bank. The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations, including: the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act and other agency regulations pertaining to the nondiscriminatory treatment of credit applicants.