

# **PUBLIC DISCLOSURE**

(November 30, 1998)

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**PRIME BANK  
RSSD - 1191398  
FORT WASHINGTON, PENNSYLVANIA**

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

**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.

## GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the financial institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of Prime Bank prepared by the **Federal Reserve Bank of Philadelphia** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of **November 30, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

## INSTITUTION

### INSTITUTION'S CRA RATING

Prime Bank's performance under CRA is assessed as "**Outstanding**", based on an evaluation of the performance criteria specified under CRA with respect to the lending, investment, and service tests. Overall lending levels reflect an excellent responsiveness to the credit needs of Prime's assessment area, as delineated for purposes of CRA. A substantial majority of all loan categories are made in the bank's assessment area. The distribution of lending activities is reflective of excellent penetration among businesses of different sizes, particularly small businesses, and retail customers of different income levels, including low- and moderate-income persons. Additionally, the geographic distribution of lending activities is good. The level of qualified community development investments is deemed excellent. The investments are innovative and have exerted a favorable impact upon low- and moderate-income geographies and low- and moderate-income population segments. Finally, the bank proactively facilitates and or/coordinates the offering of community development services.

### DESCRIPTION OF INSTITUTION

Prime Bank (Prime), headquartered in Fort Washington, Montgomery County, Pennsylvania, has operated as a commercial bank since October 1997. Previously, Prime was a savings bank, whose parent company acquired First Sterling Bank (First Sterling), a commercial bank in October 1997, resulting in a commercial bank with 24 offices located throughout Bucks, Chester, Delaware, Montgomery, and Philadelphia counties.

At the time of the merger, Prime had assets of \$704 million and First Sterling had assets of \$225 million. Upon the merger, Prime reported slightly over \$1.0 billion in total assets, \$640 million, or 62 percent, of which, consisted of loans outstanding. Prime offers a variety of loan and deposit products to individuals and businesses within its assessment area, as delineated for purposes of CRA, categorized as follows.

<u>Loan Products</u>	<u>Deposit Products</u>
Commercial and Small Business Loans	Commercial and Small Business Accounts
Nonresidential Mortgage Loans	Checking Accounts
Residential Mortgage Loans	Money Market Deposit Accounts
Home Equity Loans and Lines of Credit	Certificates of Deposit
Home Improvement Loans	Negotiable Order of Withdrawal Accounts (NOW)
Construction Loans	Statement and Passbook Savings
Consumer Loans	Individual Retirement Accounts (IRAs)
Education Loans	Debit Card (ATM/Visa combined)

In transitioning from a thrift institution to a commercial bank, Prime hired additional commercial lending personnel. Prime's management speaks to an ongoing emphasis on commercial lending in the 1997 annual report of Prime's parent company, Prime Bancorp, Inc. Such emphasis has resulted in an increased volume of commercial deposit accounts and commercial real estate loans. As a commercial bank, Prime has changed the focus of its residential mortgage lending activities from portfolio lending to selling residential mortgages through various mechanisms within the secondary mortgage market. This change is evidenced by a significant shift in Prime's loan mix. Residential mortgage loans accounted for 34% of the total portfolio at December 31, 1998, down from 45% at September 30, 1997.

## INSTITUTION (CONTINUED)

### **DESCRIPTION OF INSTITUTION (continued)**

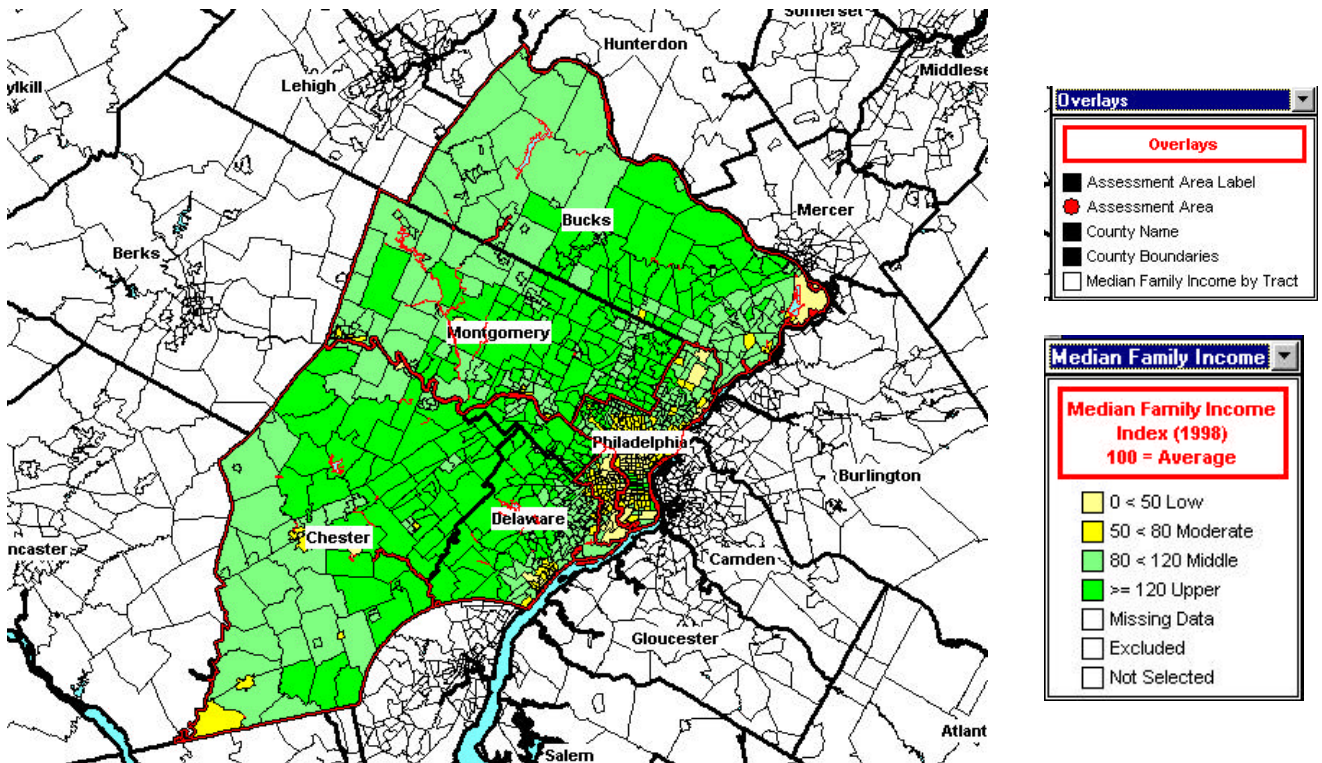
Correspondingly, commercial and industrial loans represented 26% of total loans outstanding at year-end 1998, double the percentage shown by Prime, at the end of the third quarter 1997. The combined volume of commercial and industrial loans and commercial mortgage loans represented nearly 60% of the total loan portfolio by year-end 1998. Commercial lending activities are expected to increase in the near term.

## DESCRIPTION OF ASSESSMENT AREA

**[Note: Median family incomes and all other demographic indices and statistics, presented throughout this evaluation, are based on 1990 U.S. Census data, unless otherwise noted.]**

Prime has delineated its assessment area as Bucks, Chester, Delaware, Montgomery, and Philadelphia counties. The five-county assessment area is comprised of 964 census tracts and is part of the Philadelphia Metropolitan Statistical Area (MSA). Its population of 3.7 million represents 76% of the total population within the MSA. In terms of population, the Philadelphia MSA is the fourth largest in the nation. The MSA includes the entire city of Philadelphia, four surrounding counties in Pennsylvania and four contiguous counties, situated across the Delaware River from Philadelphia, in New Jersey. The assessment area does not include any of the MSA's geographies in New Jersey. The assessment area is mapped as follows.

Prime Bank's Assessment Area



Of the 964 census tracts, referred to as geographies, 283, or approximately 30% have been designated as either low- or moderate-income. Nearly 70% of the low and moderate-income geographies are located in the city of Philadelphia or Philadelphia County. A substantial portion of the city's most economically distressed low- and moderate-income geographies are located in the North and West Philadelphia sections of the city. The assessment area's other low- and moderate-income geographies are essentially situated in the city of Chester, Delaware County; Bristol Borough, Bucks County; Coatesville, Chester County; and the city of Norristown, Montgomery County. Next to Philadelphia, Chester has the greatest number of low- and moderate-income geographies and economically disadvantaged areas. The composition of the assessment area by geography type is detailed as follows.

## DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

<b>GEOGRAPHY TYPE</b>	<b>Number</b>	<b>Percent</b>
Low-Income	115	12
Moderate-Income	168	17
Middle-Income	395	41
Upper-Income	286	30
<b>Total</b>	<b>964</b>	<b>100</b>

The assessment area's population of 3.7 million is categorized by geography type as follows.

<b>POPULATION BY GEOGRAPHY</b>	<b>Number</b>	<b>Percent</b>
Low-Income	369,801	10
Moderate-Income	725,696	20
Middle-Income	1,580,995	42
Upper-Income	1,052,417	28
<b>Assessment Area</b>	<b>3,728,909</b>	<b>100</b>

The adjusted annual median family incomes of the Philadelphia MSA for 1998, 1997 and 1996, as reported by the U.S. Department of Housing and Urban Development (HUD), are \$52,900, \$51,300 and \$49,300, respectively. The following table categorizes the dollar amounts recognized as low, moderate middle and upper-income, predicated upon adjusted median family income measures.

<b>Year</b>	<b>HUD Adjusted Median Family Income</b>	<b>Low Income (&lt;50%)</b>	<b>Moderate Income (50%-79%)</b>	<b>Middle Income (80%-119%)</b>	<b>Upper Income (120% or Greater)</b>
1998	\$52,900	Less than \$26,450	\$26,450--\$42,319	\$42,320--\$63,479	\$63,480 or more
1997	\$51,300	Less than \$25,650	\$25,650--\$41,040	\$41,040--\$61,559	\$61,560 or more
1996	\$49,300	Less than \$24,650	\$24,650--\$39,439	\$39,440--\$59,159	\$59,160 or more

The assessment area contains 954,214 families. Based on this total, 21% are categorized as low-income, 18% are moderate-income, 23% are middle-income and 38% are upper-income. Families living below the federally recognized poverty level represent 8.3% of total families, slightly higher than the poverty levels of Pennsylvania, and the MSA as a whole.

The assessment area contains 1,491,310 residential housing units, 64%, of which, are owner-occupied, the same as the statewide owner-occupancy rate. Rental units comprise 29% of total housing stock in the assessment area. Eighty-two percent of total residential units in the assessment area are one-to-four family dwellings, while multi-family dwellings represent 16% of the total.

The overall cost of housing in the assessment area is well above housing costs statewide. The median housing value within the assessment area is \$96,749, compared to a Pennsylvania median of \$69,075. Twenty-six percent of total owner-occupied units within the assessment area are valued at \$150,000 or more, compared to only 13% of all housing units in the state.

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

Economic conditions within the MSA have been generally favorable over the past several years, similar to many areas throughout the nation. Nevertheless, adverse economic conditions remain a serious concern within many parts of Philadelphia. Local authorities have estimated that since 1994, the city's residential population base has experienced a net decrease of approximately 100,000 residents. Under a federal empowerment zone program authorized by the U.S. Congress in 1993, three sections of the city have been designated as federal empowerment zones. These zones, together with other zones designated in the cities of Atlanta, Baltimore, Boston, Camden, New Jersey, Chicago, Detroit, and New York have been identified as the most economically distressed areas in the nation. Under the empowerment zone program, substantial amounts of federal funding has been allocated to each zone for economic revitalization. Although employment levels in the last two years have remained relatively stable in Philadelphia, the number of jobs in the city decreased consistently from 1988 through 1996, primarily in manufacturing, transportation, and public utilities. More recently, service industries have provided increased employment opportunities, particularly hospitality and business services.

## 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 or characteristics, irrespective of geography, particularly low- and moderate-income borrowers and small businesses;
- Overall responsiveness to credit needs of highly economically disadvantaged geographies, low-income persons, and very small businesses;
- Community development lending activities; and,
- Product innovation (i.e., the use of innovative or flexible lending practices to address community credit needs).

**Performance under the lending test is assessed as "Outstanding".**

A substantial majority of Prime's lending activities, including home mortgage and small business lending, is within its assessment area. Most importantly, the merged entity's collective lending activities during 1998 and 1997 include several extensions of credit that address the credit needs of some of the most economically distressed segments of the assessment area, particularly in the city of Philadelphia. Such credit extensions are further detailed in this section of the evaluation. Although conventional home mortgage and small business lending activities within low- and moderate-income geographies appear somewhat limited, the bank has effectively addressed credit needs in such geographies via less conventional lending, commensurate with its size and extent of operations, and one substantial community development loan. Moreover, the substantial percentages of home improvement loans extended to low- and moderate-income borrowers, and the sizeable volume of loans originated to small businesses, evidence an excellent penetration among retail customers of different income levels and businesses of different sizes.

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

For purposes of this evaluation, the bank's overall lending profile was examined in the context that Prime, as a merged entity, has been in existence for little more than one year. Changes in the organization's ongoing business strategy to emphasize commercial lending activities were also taken into consideration.

Lending levels at year-end 1998 are deemed substantial. As already noted, 62% of the bank's total assets at December 31, 1998 (\$640 million) consisted of loans outstanding. Prime's net loan to deposit ratio was 88.7% at December 31, 1998. The average loan-to-deposit ratio for all federally insured commercial banks within Prime's national peer group (Prime's national peer group includes all federally insured commercial banks having assets between \$1 billion and \$3 billion) was 81.2%.

Lending activities, including home mortgage and small business loans reported during 1998 and 1997, are clearly concentrated within the assessment area.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Home mortgage lending activities during 1998 and 1997, as reported for purposes of the Home Mortgage Disclosure Act (HMDA), are presented as follows.

HMDA Loan Penetration within the Assessment Area								
	1998 <sup>1</sup>				1997			
	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent
Inside	509	94	44.3	92	477	96	36.0	93
Outside	31	6	4.1	8	22	4	2.6	7
Total Loans	540	100	48.4	100	499	100	38.6	100

Prime's volume of HMDA reportable loans during 1998 and 1997 is substantially less than the aggregate levels of loans reported for HMDA purposes by Prime Savings Bank prior to the merger. Such decreased lending volume is attributed to a shift from that entity's portfolio lending, to Prime's use of secondary market mechanisms to originate mortgages. In that another entity makes the ultimate credit decision for such originations, the originations are not reported by Prime for HMDA purposes. Nevertheless, Prime originated 540 HMDA reportable loans in an aggregate amount of \$48.3 million for the first nine months of 1998, 94% of which financed residential properties within the assessment area.

Small business lending activities during 1998 and 1997, as reported for purposes of CRA, are presented as follows.

CRA /Small Business Loan Penetration within the Assessment Area								
	1998				1997			
	Number	Percent	Amount	Percent	Number	Percent	Amount	Percent
Inside	435	95	63.6	93	282	94	40.4	93
Outside	23	5	5.0	7	17	6	3.0	7
Total Loans	458	100	\$68.6	100	299	100	\$43.4	100

(Note: Dollar amounts are shown in millions)

Consistent with Prime's shift in marketing focus upon commercial lending, small business lending levels shown for year-to-date 1998 are substantially above those for 1997, in both number and dollars. Similar to ongoing home mortgage lending activities, the substantial majority of CRA loans originated during the period reviewed have financed small businesses operating within the assessment area. Such concentration demonstrates a strong lending commitment by Prime to its assessment area. The substantial majority of lending is within the assessment area.

### **Geographic Distribution of Lending**

#### *Small Business Lending*

Prime originated 717 CRA (small business) loans in an aggregate amount of \$104 million during the first nine months of 1998 and calendar year 1997, combined. The following table details small business loans, by geography type, during the combined 1998/1997 period.

<sup>1</sup>Throughout this evaluation, any tabular or mapping analyses of lending activities during 1998 cover the nine months ended September 30, 1998.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### Geographic Distribution of Lending (continued)

<b>Number of Originations, By Census Tract Type within the AA, Per 1000 Businesses</b>			
<b>YTD 1998</b>			
Geography Type	Number of Businesses	Small Business Originations	Number of Originations Per 1,000 Businesses
Low	6,281	10	1.6
Moderate	12,425	55	4.4
Middle	40,308	172	4.3
Upper	37,819	189	4.9
Unknown	N/A	9	N/A
Total	96,833	435	4.5
<b>1997</b>			
Low		7	1.1
Moderate		17	1.4
Middle		145	3.6
Upper		111	2.9
Total		280	2.9

In terms of absolute number, small business lending activities are skewed to middle- and upper-income geographies. With respect to CRA loans, the rate of lending penetration in low-income geographies, relative to the total number of businesses in such geographies, was less than half the penetration rates in middle- and upper-income geographies during 1998 and 1997. Nevertheless, as Prime shifted its market focus upon commercial lending during the latter part of 1997 and into 1998, lending penetration in moderate-income geographies, per 1,000 businesses, was comparable to penetration rates in middle- and upper-income geographies during 1998. This penetration rate is significant, in that it is more than triple the penetration rate in moderate-income geographies during 1997.

Additionally, Prime is an active participant in a lending consortium that finances four different small-business micro-loan funds, from which loans of \$30,000 or less are originated throughout each of the five-counties in the assessment area. However, Prime did not report 100 loans originated through the various funds from January 1997 through November 1998 as CRA loans during either 1998 or 1997. Hence, such lending activities are not reflected in the foregoing table. Of the 100 loans originated, 28 were originated to businesses operating in low- and moderate-income geographies in the city of Philadelphia and the municipalities of Norristown, in Montgomery County; and Chester and Darby, in Delaware County. Most notably, four of the 28 loans were extended during 1998 to address the credit needs of very small businesses operating in three very low-income geographies within the North Philadelphia section of Philadelphia. Each of these geographies, which are among the most economically distressed in the Philadelphia MSA, have respective median incomes well below 50% of the MSA median. (See comments under **Innovative and Flexible Lending Practices**).

Commercial lending activities also include revolving credit facilities extended to several borrowers actively engaged in the purchase and renovation of residential dwellings situated in numerous moderate-income geographies throughout the city of Philadelphia. Prime has extended lines of credit to five borrowers as bridge or temporary financing. (Advances are made to each borrower, as needed, to acquire dwellings, and each advance is secured by a security interest in the dwelling(s) acquired. The lines of credit are structured such that advances drawn under the lines must be paid within a 12 month period.) Generally, each of the borrowers purchase several residential dwellings at somewhat distressed prices on an annual basis. The residential units acquired are thereby refurbished and held as investment properties,

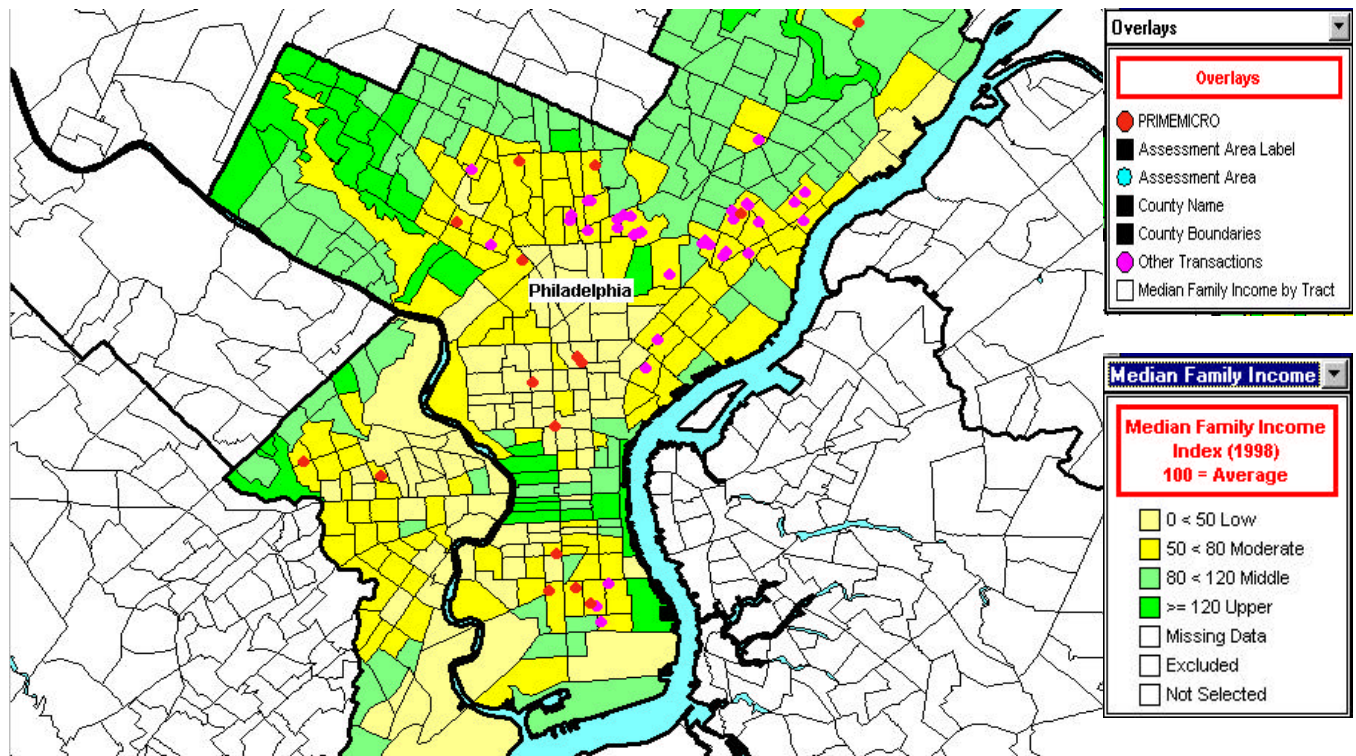
(continued)

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### Geographic Distribution of Lending (continued)

or sold to owner-occupants or other investors. Although loans originated under such facilities have been reported as CRA loans, applicable CRA reports do not indicate the location or geographies of the dwellings renovated. Instead, the residences of the borrowers are shown, most of whom do not reside in low- and moderate-income geographies.

Nevertheless, through such lending activities during the combined 1998/1997 period, Prime financed the acquisition and renovation of 31 residential units collectively situated in 20 moderate-income geographies throughout the city. Accordingly, it helped stabilize several sections of Philadelphia whose economic viability is questionable. Most of the dwellings acquired were in a state of disrepair and would likely have become vacant and ultimately abandoned without financing. Additionally, in several instances, Prime provided intermediate term financing, predicated upon the borrowers' ability to successfully rent refurbished units to qualified tenants. The bank's combined credit exposure with respect to such lending activities was \$1.3 million throughout most of 1998. The following map depicts the combined geographic distribution of small business loans originated through participation in the Philadelphia Small Business Micro-Loan Fund, and CRA loans originated to renovate residential dwellings in moderate-income geographies in Philadelphia. The mapping demonstrates lending penetration of low- and moderate-income geographies in Philadelphia not readily borne out by Prime's annual reporting of CRA loans.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### Geographic Distribution of Lending (continued)

A \$250,000 revolving credit facility, secured by accounts receivable, was extended in conjunction with other financing provided by the Philadelphia Industrial Development Corporation (PIDC) and Delaware Valley Community Reinvestment Fund (DVCRF), to a start-up business operating in a low-income geography in the North Philadelphia section of Philadelphia. This geography has been designated as an "Enterprise Zone" by the state of Pennsylvania.

A \$160,000 revolving credit facility, originated for inventory purchases and other working capital purposes, was extended to a small retail/wholesale business that operates in a moderate-income geography in the West Philadelphia section of Philadelphia. The principal of the business, who is the sole shareholder of the company, purchased the existing business operation from his previous employer approximately two years ago.

In addition to a \$550,000 line of credit, Prime extended a commercial mortgage and letter of credit to a local manufacturer operating in the Kensington section of Philadelphia. Total lending exposure to the bank was \$1.6 million at the time of the examination. It was determined that the subject manufacturer employs 130 at a facility located in Kensington, approximately 60 % of whom reside within moderate-income geographies within the immediate vicinity, while nearly 85% reside somewhere within the city of Philadelphia. Moreover, the examination determined that the various credit facilities extended by the bank clearly enabled employment retention within Kensington.

### *Home Mortgage Lending*

The following tables detail total HMDA reportable loans by geography type during 1997 and the first nine months of 1998 combined.

YTD1998/1997 HMDA Lending Profile (By Geography Type)								
Geography Type	Total Loans Originated		Aggregate Data (1997)					
	Number	%	Number	%	Dollar	%	Number	%
Low	115	12	18	2	260	*	4,486	4
Moderate	168	17	97	10	2,351	3	18,407	15
Middle	395	41	408	41	21,882	27	54,171	43
Upper	286	30	463	47	55,732	70	48,588	38
Total	964	100	986	100	\$80,225	100	125,652	100

YTD1998/1997 HMDA Lending Profile (By Geography Type)												
Tract type:	Home Purchase Loans				Refinance Mortgages				Home Improvement Loans			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	2	1	26	*	0	0	0	0	16	4	234	3
Moderate	19	7	1040	3	10	4	693	2	68	16	618	8
Middle	99	35	8,935	27	103	37	9,984	26	206	47	2,963	39
Upper	159	57	23,672	70	163	59	28,226	72	141	33	3,834	50
Total	279	100	33,673	100	276	100	38,903	100	431	100	7,649	100

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### *Home Mortgage Lending (continued)*

By number, home improvement loans constitute the single largest category of the three mortgage loan types. Prime originated almost as many home improvement loans as home purchase and home refinance mortgage loans, combined.

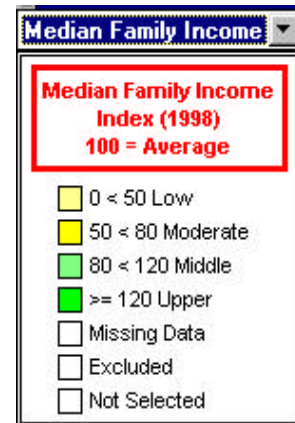
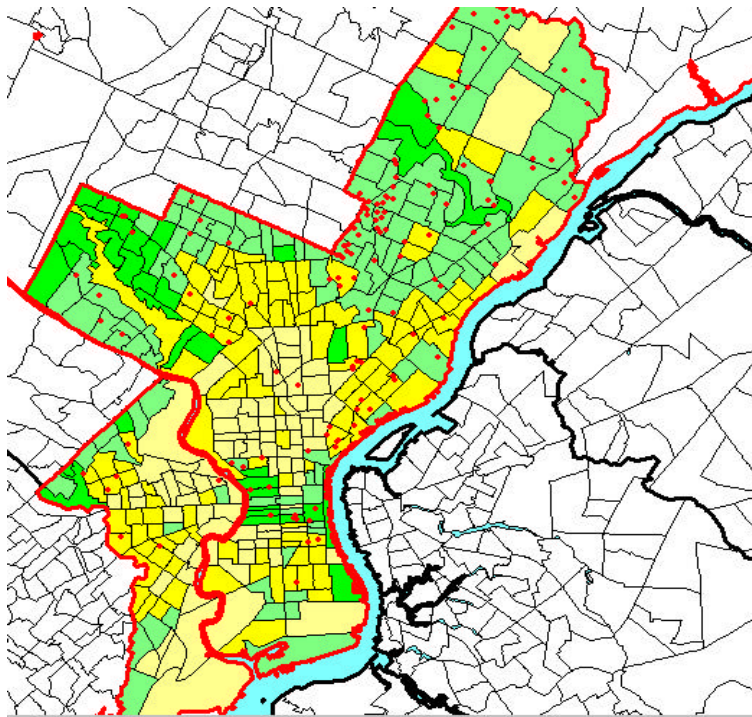
Prime's limited lending activities, regarding home purchases in low- and moderate-income geographies, is not viewed unfavorably, within the context of significant competitive factors underlying aggregate mortgage lending activities by all HMDA reporters within the assessment area's low- and moderate-income geographies, particularly in the city of Philadelphia. During 1997, 4,744 home purchase mortgages were originated throughout Philadelphia's low- and moderate-income geographies. Twenty lenders accounted for nearly 60% of this total; most of whom are large super-regional banks or large non-depository mortgage companies, or mortgage banking subsidiaries of large bank holding companies. Such entities, by their size and comparatively wide scale operations, have greater resources to maintain delivery mechanisms to effectively penetrate the city's low- and moderate-income geographies.

Prime's market focus on commercial lending has also been taken into consideration. (Previously, Prime Savings Bank, as a thrift entity, had originated greater numbers of home purchase and refinance mortgages in low- and moderate-income geographies within its delineated assessment area.) Consistent with its commercial lending focus, Prime provided a \$2.4 million intermediate-term mortgage loan to refinance debt on a 392-unit multi-family dwelling, located in a moderate-income geography in Bristol, Pennsylvania, specifically designated as affordable housing for low- and moderate-income persons.

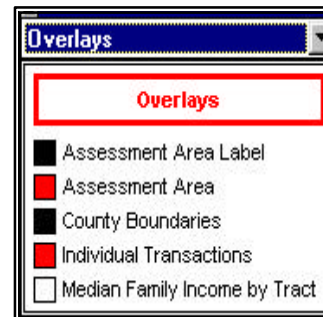
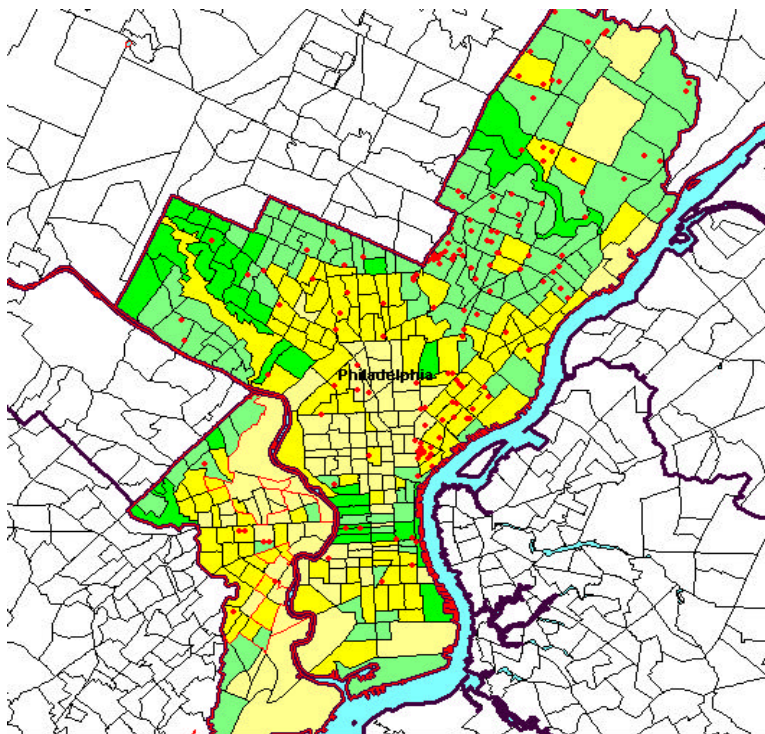
Notwithstanding the limited volume of home purchase and refinance lending activities, Prime has originated a substantial number of home improvement loans in low- and moderate-income geographies, particularly in the city of Philadelphia. Nearly 70% of the 115 loans, extended in an aggregate amount of \$2.6 million in low- and moderate-income geographies during the combined 1998/1997 period, financed improvements to residential dwellings within Philadelphia. The geographic distribution of Prime's home mortgage lending activities within Philadelphia during 1998 and 1997 are detailed in the following maps.

# CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

Prime 1998 HMDA Lending



Prime 1997 HMDA Lending



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### *Home Mortgage Lending (continued)*

Prime originates most of its home improvement loans, in low- and moderate-income geographies in Philadelphia through a long-standing relationship with a local home improvement contractor, operating primarily in the city. It should also be noted that the bank has originated a substantial volume of home improvement loans to low- and moderate-income borrowers, irrespective of geography, through the aforementioned contractor. (Such lending activities are presented in greater detail under **Borrower Characteristics**). Additionally noteworthy, more than half of the 103 home improvement loans originated within middle-income geographies in the city of Philadelphia were extended in “lower” middle-income geographies. (i.e., those with median incomes of between 80% and 90% of the Philadelphia MSA median)

### **Borrower Characteristics**

#### *Lending to Small Businesses*

An overview of small business lending activities during 1998 and 1997 is presented as follows, together with aggregate small business/CRA loans reported by all CRA loan reporters during 1997 within the assessment area.

(YTD 1998) Small Business/CRA Loans Originated				
	Less than \$100,000	Between \$100,000 and <=\$250,000	Greater than \$250,000 and <=\$1 Million	Loans to Businesses with Revenues of <=\$1 million
<b>Number of Loans Originated</b>	261	98	66	300
<b>Dollar Amount of Loans Originated</b>	\$10,341	\$17,299	\$37,208	\$36,707
(1997) Small Business/CRA Loans Originated				
<b>Number of Loans Originated</b>	175	64	43	161
<b>Dollar amount of Loans Originated</b>	\$8,062	\$11,016	\$21,333	\$11,871

MSA Aggregate 1997 Small Business Lending				
	Less than \$100,000	Between \$100,000 and <=\$250,000	Greater than \$250,000 and <=\$1 Million	Loans to Businesses with Revenues of <=\$1 million
<b>Total # of Small Business Loan within AA</b>	25,001	2,309	2,348	12,281
<b>\$ Amt of Small Business Loans within AA</b>	\$497,637	\$403,197	\$1,251,058	\$731,573

Lending activities among businesses of different sizes are deemed excellent. Prime originated 425 small business loans during the year-to-date 1998 period, totaling \$64.8 million. This level of lending among small businesses is reflective of overall increased commercial lending during 1998. During 1997, 299 loans were originated to small businesses, totaling \$43.4 million.

Of the 724 small business loans made in the assessment area during the combined 1998/1997 period, 60% were extended in loan amounts of \$100,000 or less. The average loan amount in this lending category was approximately \$42,000, indicative of a substantial responsiveness to the credit needs of small businesses within the assessment area. Equally significant, nearly two-thirds the number of all small business loans originated during 1998/1997 were made to businesses with reportable annual gross revenues of \$1 million, or less.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### *Lending to Small Businesses (continued)*

In addition, Prime Bank extended a \$100,000 line of credit to a private non-profit entity whose primary purpose is to assist military veterans throughout the entire Philadelphia MSA. The line of credit was extended to address the entity's cash flow needs. As one of 23 similar organizations created in 1981 to assist with veteran needs throughout the nation, the subject entity is the only one that has survived to date. In 1996, the entity was awarded a grant, that combines funding received from the U.S. Department of Veteran Affairs and HUD, for the construction of a daily "drop in" center for veterans within the city of Philadelphia. The drop-in center provides hygienic and medical/psychological care and social services to homeless veterans. In addition to the line of credit, Prime committed \$500,000 in construction mortgage financing in conjunction with the aforementioned government funding. To date, \$323,000 has been drawn under Prime's construction mortgage commitment for construction of the drop-in center. The center, which is expected to serve approximately 1,500 veterans throughout the MSA, is scheduled to open during the first quarter of 1999.

### *Home Mortgage Lending*

An overview of HMDA reportable mortgage originations within the assessment area by borrower income, for the combined 1998/1997 period, is presented as follows.

1998/1997 HMDA Lending Profile (By Borrower Income)								
By Income Category	Total Families		Total Loans Originated				1997 Aggregate Data	
	Number	%	Number	%	Dollar	%	Number	%
Low	198,579	21	70	7	\$671	2	14,138	11
Moderate	170,687	18	177	18	4,049	11	22,328	18
Middle	222,416	23	238	24	6,795	19	25,788	20
Upper	362,532	38	475	48	23,546	65	42,167	34
Income N/A	0	0	26	3	910	3	21,231	17
Total	954,214	100	986	100	35,971	100	125,652	100

The next table presents HMDA mortgage originations by both borrower income and product type during the 1998/1997 period.

1998/1997 HMDA Lending Profile (By Borrower Income and Product Type)												
Borrower:	Home Purchase Loans				Refinance Mortgages				Home Improvement Loans			
	#	%	\$	%	#	%	\$	%	#	%	\$	%
Low	7	2	193	1	6	2	326	1	57	13	619	8
Moderate	61	22	4,268	13	31	11	2,146	6	85	20	903	12
Middle	66	24	7,009	21	57	21	5,203	13	115	27	1,627	21
Upper	132	47	20,754	61	169	61	29,324	75	174	40	4,500	59
Inc. N/A	13	5	1,449	4	13	5	1,904	5	0	0	0	0
Total	279	100	\$33,673	100	276	100	\$38,903	100	431	100	\$7,649	100

Although overall mortgage lending is skewed to middle- and upper-income borrowers, in comparison to applicable demographics and aggregate lending activity, this evaluation's emphasis is placed upon home improvement loans originated among borrowers of different income types. As noted under **Geographic Distribution**, in terms of number, home improvement loans represent the single largest loan category among the three loan types reviewed.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### *Home Mortgage Lending (continued)*

The percentage of home improvement loans originated to moderate-income borrowers exceeds the percentage of families categorized as moderate-income by the 1990 census. This pronounced lending volume is largely attributed to indirect financing provided by the bank through a longstanding relationship with a local home improvement contractor. (This relationship was also discussed under **Geographic Distribution**). Lending to low-income borrowers is something less than the corresponding demographic measure; however, this comparison is tempered by the comparatively high cost of housing in the assessment area and its attendant obstacles to home ownership for low-income persons.

Notwithstanding the emphasis given to home improvement lending, it is also noted that the relative level of home purchase mortgages extended to moderate-income borrowers exceeds the percentage of families categorized as moderate-income. The percentage of home purchase mortgages originated to low-income borrowers is well below the corresponding demographic measure. However, this comparison, similar to the comparison regarding home improvement lending, is tempered by the obstacles to home ownership for low-income persons in the assessment area, including the city of Philadelphia.

Lower levels of home refinance mortgages to both low- and moderate-income borrowers, relative to corresponding demographic measures, are not deemed unreasonable, in view of the obstacles that often preclude the extension of refinance loans to such persons, especially low-income persons. Such obstacles include closing costs that are relatively higher than those associated with home purchase loan products aimed at low- and moderate-income loan applicants, and loan-to-value requirements that are generally more restrictive than those of loan facilities geared towards first-time home purchases.

### **Community Development Lending**

Prime originated only one community development loan within its assessment area during the 1998/1997 period reviewed. Nevertheless, the amount of the loan is substantial and is representative of a concerted effort to address a major community development initiative within the assessment area. Additionally, various small business lending activities, as previously highlighted under **Geographic Distribution** and **Borrower Characteristics**, clearly address community development initiatives. Indeed, if such extensions of credit were not reported as CRA loans or considered as loans to small businesses, they would be recognized as community development loans, by the regulatory definition pursuant to CRA.

The aforementioned community development loan was extended in August 1997 as a \$2.4 million eight-year mortgage to refinance the outstanding balance of a \$5.3 million HUD insured 40-year mortgage loan, originated in 1970 to finance a multi-family dwelling in a moderate-income geography. The borrower, a non-profit entity, manages the multi-family facility subject to a formal agreement with HUD that governs rent increases. Specifically, the borrower cannot impose any rent increase that would cause rents to be no longer affordable for tenants whose incomes are less than 80% of the adjusted median income of the MSA.

Such financing facilitates the ongoing availability of 392 units of affordable housing located in the city of Bristol, Bucks County, Pennsylvania. Additionally, it provides housing opportunities to low- and moderate-income persons beyond Bucks County. The facility's promotional literature welcomes persons meeting the income requirements from other parts of the assessment area, including the city of Philadelphia. The moderate-income geography, in which the dwelling is located, is within a sector of Bucks County that is, arguably, the most economically distressed countywide.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **Innovative or Flexible Lending Practices**

Prime's somewhat less conventional lending has enabled the bank to address community credit needs of low- and moderate-income geographies and population segments that likely would have gone unmet without such lending. As already noted, Prime actively participates in various small business micro-loan funds that address credit needs of very small businesses in each of the five counties within the assessment area. Loans originated from the funds are extended in amounts ranging from \$5,000 to \$30,000. As a longstanding practice, the bank has actively offered home improvement credit to low- and moderate-income homeowners, in many instances on an unsecured basis. Prime continues to actively extend temporary or bridge financing to several entrepreneurs engaged, on a full-time basis, in the acquisition and renovation of distressed residential dwellings in moderate-income geographies. During August 1998, Prime was instrumental in the establishment of the Penn Southeast Mezzanine Fund, created through a consortium with three other banks to provide flexibility in evaluating and addressing the credit needs of businesses with strong growth and earnings potential, but unable to meet more conventional underwriting requirements. Such lending practices are detailed as follows.

### ***Participation in Small Business Micro-Loan Funds***

Prime is an active participant in a lending consortium of ten commercial banks that fund loan originations from four different micro-loan funds (i.e., the Montgomery County Micro-Loan Fund, the Bucks County Micro-Loan Fund, the Delaware and Chester Counties Micro-Loan Fund, and the Philadelphia County Micro-Loan Fund). Generally, loans originated from each fund cannot be originated through more conventional loan programs offered by commercial banks. Moreover, participant banks view the funds as a lesser-risk alternative to address the credit needs of business "start-ups" or other small business ventures that are not "bankable".

### ***Home Improvement Loans***

Through its ongoing relationship with a small home improvement contractor, Prime offers and extends a preponderance of home improvement loans on both a secured and unsecured basis. As a practice, indirect home improvement loan applications are evaluated on a case-by-case basis. In many instances, loan requests of less than \$5,000 are entertained on an unsecured basis, while loans for as little as \$300 have been originated for home improvement purposes.

### ***Participation in Penn Southeast Mezzanine Fund***

The primary purpose of the fund is to provide "mezzanine" or "bridge" finance for small and mid-size businesses in need of growth capital, acquisition of real estate and equipment, or other business purposes. Most importantly, the fund has been implemented to allow for flexibility in credit evaluation and the structuring of credit terms and conditions. Under the structure of the fund, half an amount of a credit extension is funded through a revolving loan pool, in which all consortium members participate, while the remaining half is financed directly by an individual member bank. Loans originated range in amounts from \$100,000 to \$750,000.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### *Participation in Penn Southeast Mezzanine Fund (continued)*

Although numerous funds of this type have been established throughout the nation, none existed within the assessment area prior to the creation of the subject fund. With respect to the formation of the fund, Prime took the initiative to research the resources necessary to establish such a fund, and sought out other banks to actively participate in the fund. In addition to Prime's initial equity investment of \$250,000 in the fund, it has committed \$1.3 million to the revolving loan pool. Prime also provides technical support to the administration of the fund.

No loans had been originated from the fund as of the examination date. However, one five-year term loan was originated in December 1998 on an unsecured basis in an amount of \$500,000. Additionally, two other credit requests were being evaluated during the examination. One was a request for a \$750,000 five-year term loan to enable management of a local manufacturer, operating in a moderate-income geography of Philadelphia, to purchase the manufacturer by which they had been employed for several years. The other was a request from a local wholesaler for a five-year \$150,000 term loan to address working capital needs, brought on by a recent business expansion.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### INVESTMENT TEST

The investment test evaluates a financial institution's level of qualified investments that serve low- and moderate-income geographies and/or persons, with emphasis upon the following characteristics:

- responsiveness to credit and community development needs; and,
- the use of innovative and complex investments to support community development initiatives.

Qualified investments made prior to the previous examination, which are still outstanding, are considered under the test. For purposes of CRA, the term qualified investment has been defined to include: a lawful investment, deposit, membership share or grant, including a donation or in-kind contribution of property, that has, as its primary purpose, community development.

#### **Prime Bank's performance under the investment test is assessed as "Outstanding".**

Prime made 20 qualified investments totaling \$2.2 million since the January 1995 examination. The largest portion of this amount consists of tax credit investments in three limited partnerships engaged in affordable housing initiatives within the city of Philadelphia. Although tax credit investments by commercial banking entities have become more mainstream in recent years, to be effective in meeting community development needs such investments generally require long-term commitments and considerable technical support on the part of investing commercial banks. Prime's tax credit investments address housing and/or community development needs within neighborhoods in Philadelphia that are widely regarded as among the most economically disadvantaged. Prime also made a substantial investment in a minority-controlled financial intermediary based in the West Philadelphia section of the city, and another investment in a mezzanine business fund established by a consortium of banks. Other qualified investments consist of grants provided to support community development initiatives that facilitate home ownership for low- and moderate-income persons, and micro-financing for small businesses.

#### **Investment and Grant Activity**

Prime's level of investment and grant activity is deemed excellent. Three tax credit investments were made during 1998 and the latter part of 1997, totaling nearly \$1.6 million. Such amount is considered substantial given the bank's size and extent of operations. By regulation, Prime Bank's aggregate holdings of tax credit investments cannot exceed 5% of its common stock and surplus combined, without prior notification to its direct banking regulator, The Federal Reserve Bank of Philadelphia. The amount of such investments represents slightly less than 5% of the prescribed regulatory limit at year-end 1998. Prime also deposited \$300,000 in a small minority-controlled federal mutual savings bank, headquartered in a moderate-income geography in the West Philadelphia section of Philadelphia. The deposit is in the form of a below market interest rate certificate of deposit (CD) with a two-year maturity.

The balance of investment activity consists of grants. Grants of \$5,000 are made annually to help cover administrative costs of each of the four small business micro-loan funds, which are discussed in detail under the **Lending Test**. Prime also provided 11 grants totaling \$48,000 during 1998 and 1997 as a participant in the Federal Home Loan Bank of Pittsburgh's Home Buyer Equity Fund/Grant Assistance Program. The maximum grant amount available under the program is \$5,000. The grants are provided in conjunction with certain affordable housing loan programs to qualifying loan applicants (i.e., applicants whose annual income are at or less than 80% of median income) as assistance toward down payment and closing costs.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **Responsiveness to Credit and Community Development Needs**

Collectively, Prime's tax credit investments and its qualified investment within a minority-controlled mutual savings bank, are reflective of an excellent responsiveness to community development needs. Each of the investments facilitates much needed affordable housing within economically distressed sections of Philadelphia, detailed as follows.

#### *Investment in the Frankford Avenue Housing Partnership*

The general partners are two longstanding non-profit community groups involved in various community development initiatives for several years within the Kensington and Port Richmond sections of the city. The partnership owns and manages 10-units of affordable housing scattered throughout a moderate-income geography in Port Richmond. The general partners acquired title to the housing units through a court-ordered receivership action against the previous owner/landlord. Prime is the only limited partner investor in the partnership.

#### *Investment in St. Joseph's Housing for the Elderly Project*

The general partner is Franklin Capital Group, a for-profit real estate developer, based in Peabody, Massachusetts, specializing in the development of affordable housing via limited partnership arrangements. The partnership has provided 62 units of affordable housing designated for senior citizens within a low-income geography in the Tioga/Nicetown section of the city. Previously, Prime extended a \$3.2 million bridge loan to finance the subject housing initiative. At present, Prime and First Union Bank, based in Charlotte, North Carolina, provide permanent financing to the initiative as limited partner investors.

#### *Investment in the Neighborhood Restoration Partnership*

This partnership purchases and rehabilitates abandoned residential dwellings located in the West Philadelphia section of the city. Upon completion, the units are rented to qualifying low-income tenants. The partnership renovated and placed qualifying tenants in 15 dwellings during 1998.

Additionally, a \$300,000 certificate of deposit (CD) in the name of Prime at an African-American controlled mutual savings bank, which lends primarily in the West Philadelphia section of Philadelphia, has enabled the savings bank to provide permanent mortgage financing for five low- and moderate-income borrowers. The CD bears a rate of interest which is below the prevailing market rate of interest offered by the mutual savings bank on comparable CD's. An agreement between the minority-controlled savings bank and Prime stipulates that the CD's proceeds are to facilitate the origination of home purchase loans to low-income persons or low-income geographies within the West Philadelphia section of the city.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **Use of innovative and/or complex investments to support community development initiatives**

Prime's management was instrumental in establishing the Penn Southeast Mezzanine Fund. Although such funds have been established in numerous states, Prime took the initiative to research the workings of mezzanine funds in other areas, and to seek out additional banks to participate in a local mezzanine fund venture. Proceeds of Prime's initial equity investment of \$250,000 in the fund were utilized to underwrite various start-up costs, including the purchase of computer hardware, software, and other office equipment; promotional and marketing expenses; and other administrative costs. To date, the availability of the fund is deemed an innovative financing alternative within the assessment area to address the credit needs of smaller, growing, and promising business operations.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### SERVICE TEST

The service test evaluates the financial services provided by a financial institution among the following characteristics:

- The accessibility of delivery mechanisms within an assessment area, including the distribution of an institution’s branch-offices, and alternative delivery mechanisms;
- The impact of changes in branch locations (i.e., openings and closings) upon low- and moderate-income geographies and/or low- and moderate-income persons in the assessment area;
- The reasonableness of business hours and services in meeting assessment area needs; and
- The extent to which an institution provides community development services.

**Prime Bank’s performance under the service test is assessed as “High Satisfactory”.**

Prime maintains offices in each of the five counties of the assessment area, with the availability of reasonable business hours and services, including locations in moderate-income geographies. Most notably, the institution provides a high level of community development services, frequently in a leadership role, with the underlying intent of increasing the availability of loan products and financial services to low- and moderate-income geographies and low- and moderate-income persons within the assessment area.

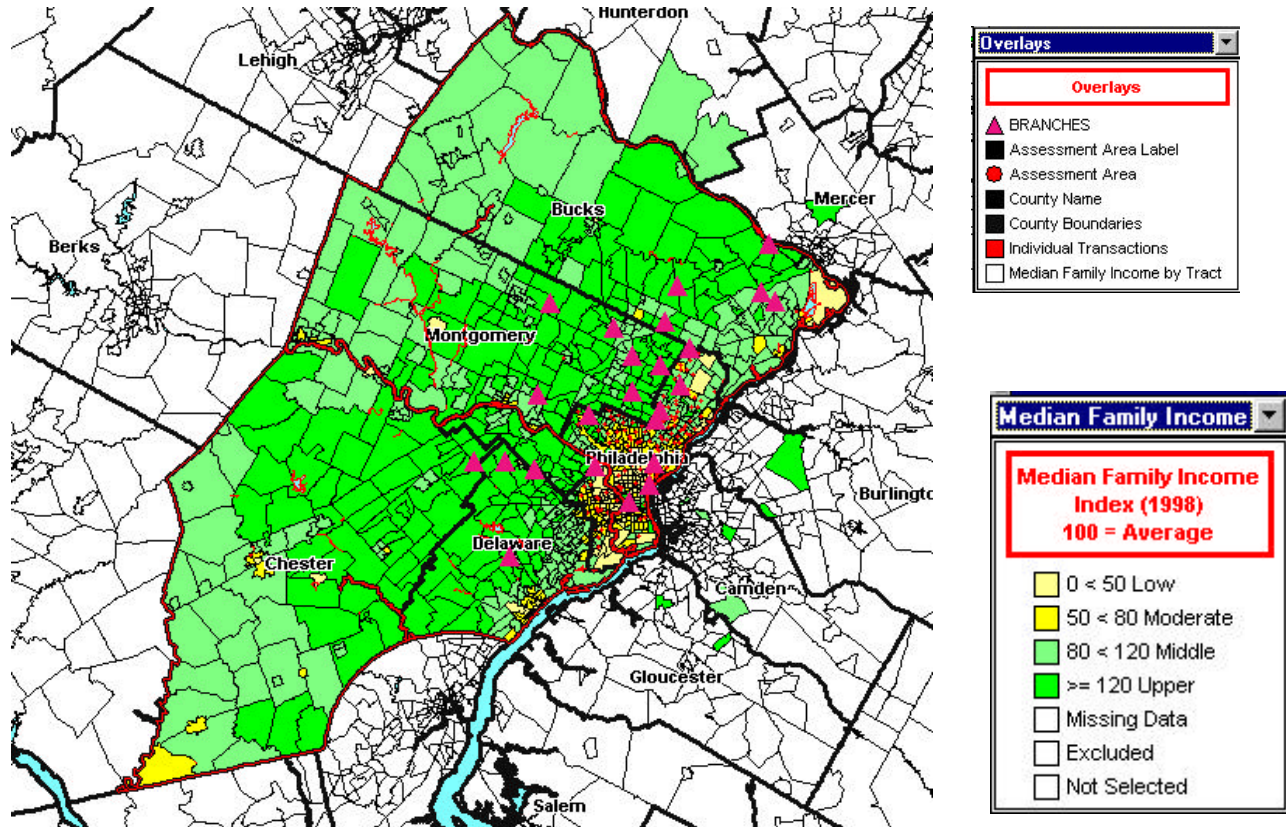
### Accessibility of Delivery Systems

The distribution of Prime’s 24 full-service banking office locations by geography type are listed and mapped as follows.

<b>BRANCH NAME</b>	<b>COUNTY</b>	<b>GEOGRAPHY TYPE</b>
Burholme	Philadelphia	Middle
Chestnut Hill	Philadelphia	Upper
JFK & 18 <sup>th</sup>	Philadelphia	Middle
Grant	Philadelphia	Middle
Kensington	Philadelphia	Moderate
Lawndale	Philadelphia	Middle
Penn Treaty	Philadelphia	Moderate
Somerton	Philadelphia	Middle
Horsham	Montgomery	Middle
Huntingdon Valley	Montgomery	Upper
Jenkintown	Montgomery	Upper
Montgomeryville	Montgomery	Upper
Willow Grove	Montgomery	Middle
Bala Cynwyd	Montgomery	Upper
Bryn Mawr	Montgomery	Upper
Plymouth Meeting	Montgomery	Upper
Fairless Hills	Bucks	Upper
Oxford Valley	Bucks	Middle
Richboro	Bucks	Upper
Southampton	Bucks	Middle
Yardley	Bucks	Middle
St. David’s	Delaware	High
Media	Delaware	Middle
Devon	Chester	High

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### Accessibility of Delivery Systems (continued)



The majority of the 24 offices are situated in Bucks and Montgomery Counties, and the city of Philadelphia. In addition to its full-service banking office locations, Prime maintains administrative offices located in Fort Washington (Montgomery County). Retail banking services are not offered from these offices. No offices are located in low-income geographies. The handful of offices in Delaware and Chester Counties are the least proximate, of any in Prime's branch network, to low- and moderate-income geographies, namely low- and moderate-income geographies in Coatesville and the city of Chester. Additionally, Prime's offices in Montgomery County are located at some distance from moderate-income geographies in Norristown.

Nevertheless, two branch offices are located in two moderate-income geographies within the Kensington and Penn Treaty sections of Philadelphia. These office locations are reasonably accessible by public mass transit to residents of several low-income geographies in the North Philadelphia section of the city.



## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### **Changes in Branch Office Locations**

The merger of Prime Savings Bank and First Sterling Bank did not result in any branch closings. Two branch offices were opened subsequent to the date of the merger in Plymouth Meeting and Horsham Townships in Montgomery County, both of which are situated in upper-income geographies. The opening of these offices has not adversely affected the accessibility of the delivery of loan products and financial services to low- and moderate-income geographies and low- and moderate-income persons within the assessment area.

### **Reasonableness of Business Hours and Services in Meeting Assessment Area Needs**

Business hours among the different branch offices do not vary in a way that would inconvenience low- and moderate-income residents. Extended hours on Friday evenings and Saturday mornings are offered at most branch locations, including the two offices in moderate-income geographies in Kensington and Penn Treaty. Each of Prime's offices is a full service office, with each uniformly offering access to all of the bank's loan products and financial services.

All customers, irrespective of the geography type in which they reside, are availed access to the services of an automated telephone banking system on a 24-hour basis, *Prime Access 24*. The telephone number to access the system is available in all area codes of the assessment area, thereby eliminating the need for a toll call. Through *Prime Access 24*, customers can transfer funds between accounts and obtain savings and loan account balance information.

Prime's fee structure for various deposit and financial services is comparable to those of other similar-sized community banks within the assessment area, and in several instances, are lower than those of large super-regional banks. The bank also offers evening and weekend business hours in which to take home mortgage applications. Prime does not impose any service fees upon its depositors for the use of automated teller machines (ATMs) that it does not own or are not part of its proprietary ATM network.

### **Community Development Services**

Prime provides a comparatively high level of community development services within the context of its size and extent of operations. A discussion of such services follows.

Prime initiated a student savings program targeted at middle-school children of low- and moderate-income families during October 1998. Under the program, representatives of the bank visit schools and speak to children about money and banking principles. The program also imparts the importance of planning to achieve a financial goal, through an example of saving for and purchasing a bicycle. The first school selected for the program is located in a moderate-income neighborhood of Philadelphia. To date, 75 student savings accounts have been established. Currently, Prime is preparing to introduce the program to two other Philadelphia schools, and plans to expand the program to additional schools within the near future.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS (CONTINUED)

### Community Development Services (continued)

Prime's management provides a substantial degree of technical support to various local entities engaged in the provision of community development services, detailed as follows.

The bank's CRA Officer actively serves on the Home Improvement and Secondary Market Teams of the Greater Philadelphia Urban Affairs Coalition. The aforementioned teams represent collaborative efforts among bankers, government agency representatives, and local foundations to share information and expertise, and to develop alternative loan products for low- and moderate-income persons and low- and moderate-income geographies. Currently, the Home Improvement Team is seeking to develop a home improvement loan product, wherein underwriting criteria and pricing, among other things, will be more favorable to low-income borrowers. The Secondary Market Team is looking to create a collaborative affordable housing mortgage product to be sold in the secondary mortgage market, thereby reducing the need for lenders to portfolio loans and provide additional opportunities to originate home mortgage loans to low- and moderate-income mortgage applicants.

The CRA Officer is a member of the board of directors of the North Central Philadelphia chapter of Habitat for Humanity. In this capacity, her primary responsibilities include oversight of the affiliate's finances, employment, administration, and strategic planning, including fundraising and construction activities. In addition, she provides technical assistance with respect to pre-purchase counseling for prospective home-owners, proper mortgage documentation and servicing, and secondary mortgage market opportunities. As a member of the directorate's Resource Committee, she assists in preparing written requests, on behalf of the affiliate, for monetary grants and in-kind contributions.

The CRA Officer is a member of the (Philadelphia) Mayor's Bankers Empowerment Zone Task Force. Her responsibilities include assessing the successes and obstacles of the three federally designated empowerment zones named within the city of Philadelphia. The task force regularly meets with representatives of each of the three nonprofit Community Lending Institutions designated by the federal government for the empowerment zones. Such entities have been charged with oversight of all federal funds allocated to their respective empowerment zone. Accordingly, loan products and extensions of credit made available, pursuant to federal funding, are reviewed and recommendations are made to Philadelphia's Mayor Rendell with respect to ongoing challenges and future goals.

Prime remains an active participant in the Small Business Support Center. The center, a local non-profit entity, coordinates a long-standing private, public, and government initiative to provide state of the art reference and business development resources to small businesses and parties wishing to form small businesses within the assessment area. Available resources include a variety of training and lending programs available at little or no cost to small businesses. Prime's CRA Officer regularly serves on the center's advisory board. Her responsibilities include general oversight for the provision of technical assistance, strategic planning, community outreach, financial assistance, and loan support.