

# **PUBLIC DISCLOSURE**

(April 30, 2001)

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**MADISON BANK  
RSSD ID - 1399916  
BLUE BELL, PENNSYLVANIA**

**FEDERAL RESERVE BANK OF PHILADELPHIA  
PHILADELPHIA, PENNSYLVANIA**

**NOTE:** This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve Bank of Philadelphia concerning the safety and soundness of this financial institution.

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**INSTITUTION'S CRA RATING****Satisfactory**

Major factors contributing to this rating include:

- A loan-to-deposit ratio that is more than reasonable given the bank's size, financial condition, and assessment area credit needs,
- A substantial majority of loans and other lending related activities are inside the bank's assessment area,
- The geographic distribution of loans represents a reasonable dispersion throughout the assessment area,
- Reasonable penetration among borrowers of different incomes, and
- Excellent penetration among businesses of different sizes.

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## Madison Bank

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### DESCRIPTION OF INSTITUTION

Madison Bank (MB), headquartered in Blue Bell, Montgomery County, Pennsylvania, is state chartered as a full-service commercial bank. Through nine branch offices located in Montgomery, Bucks, Delaware, and Philadelphia counties, the bank offers a variety of consumer and commercial banking services. Five of MB's branches have opened since the last examination conducted in May 1997. All of the branches are located in upper-income geographies except three in middle-income geographies, two in Montgomery County and one in Philadelphia County. MB operates ten automated bank teller machines (ATMs) through its 24-hour Banking Network, which is linked with MAC, a regional ATM network, and Cirrus, a national ATM network. The bank also offers Internet banking through its website at [www.madisonbank.com](http://www.madisonbank.com), at which customers may pay bills, transfer funds, and check balances. MB also operates a mortgage division, Philadelphia Financial Mortgage Company, from its headquarters in Blue Bell, Pa, through which the bank offers a wide variety of mortgage products.

The following table details the locations of MB's nine branches.

MSA	County	#of Branches
Philadelphia		9
	Bucks	1
	Delaware	1
	Montgomery	6
	Philadelphia	1

MB is a subsidiary of Madison Bancshares Group, LTD., a bank holding company with \$174.4 million in assets headquartered in Blue Bell, Pennsylvania. The holding company has one non-bank subsidiary, Madison Capital Trust 1, selling trust preferred securities from Wilmington, DE.

As of March 31, 2001, MB reported \$174.4 million in total assets of which approximately \$144 million or 83% were loans. The composition of the bank's loan portfolio as of March 31, 2001 is presented in the table below:

<b>LOANS</b>	<b>\$0,000</b>	<b>%</b>
Construction & Land Development	1,039	0.7
Open-End Loans Secured by Residential Properties	2,608	1.8
Closed-End Secured by Residential Property	86,549	60.0
Secured by Multifamily Residential Property	472	0.3
Commercial Mortgages	20,937	14.5
Commercial and Industrial	26,667	18.5
Consumer Installment	4,943	3.4
Other Loans	1,171	0.8
<b>GROSS LOANS</b>	<b>\$144,386</b>	<b>100%</b>

The bank's asset size and financial condition indicate that it has the ability to effectively meet the credit needs of its assessment area. There are no legal or other impediments that would hamper the bank's ability to meet community credit needs.

**DESCRIPTION OF ASSESSMENT AREA**

For purposes of CRA and this written 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 median family income
- Moderate-income families have a median family income from 50% to less than 80% of the median family income
- Middle-income families have a median family income from 80% to less than 120% of the median family income
- Upper-income families have a median family income equal to or greater than 120% of the median family income

All other demographic indices and statistics presented throughout this evaluation are based on 1990 U.S. Census data unless otherwise noted.

MB has designated its assessment area to include the five Pennsylvania counties in the Philadelphia MSA, including Bucks, Chester, Delaware, Montgomery, and Philadelphia Counties. According to 1990 census data, this assessment area comprises 964 geographies (census tracts). Of these 964 geographies, 115 (12%) are designated as low-income, 168 (17%) moderate-income, 395 (41%) middle-income, and 286 (30%) upper-income. The low-income geographies are located primarily in the city of Philadelphia, which has 82% of these geographies, 16% with no population. The remainder are spread among the four other counties of the assessment area. Those containing population are located mainly in the Chester County city of Chester. The majority (74%) of the moderate-income geographies are also located in the city of Philadelphia. Most of the remaining moderate-income geographies are located in the cities of Coatesville in Delaware County, Chester in Chester County, and Norristown and Pottstown in Montgomery County.

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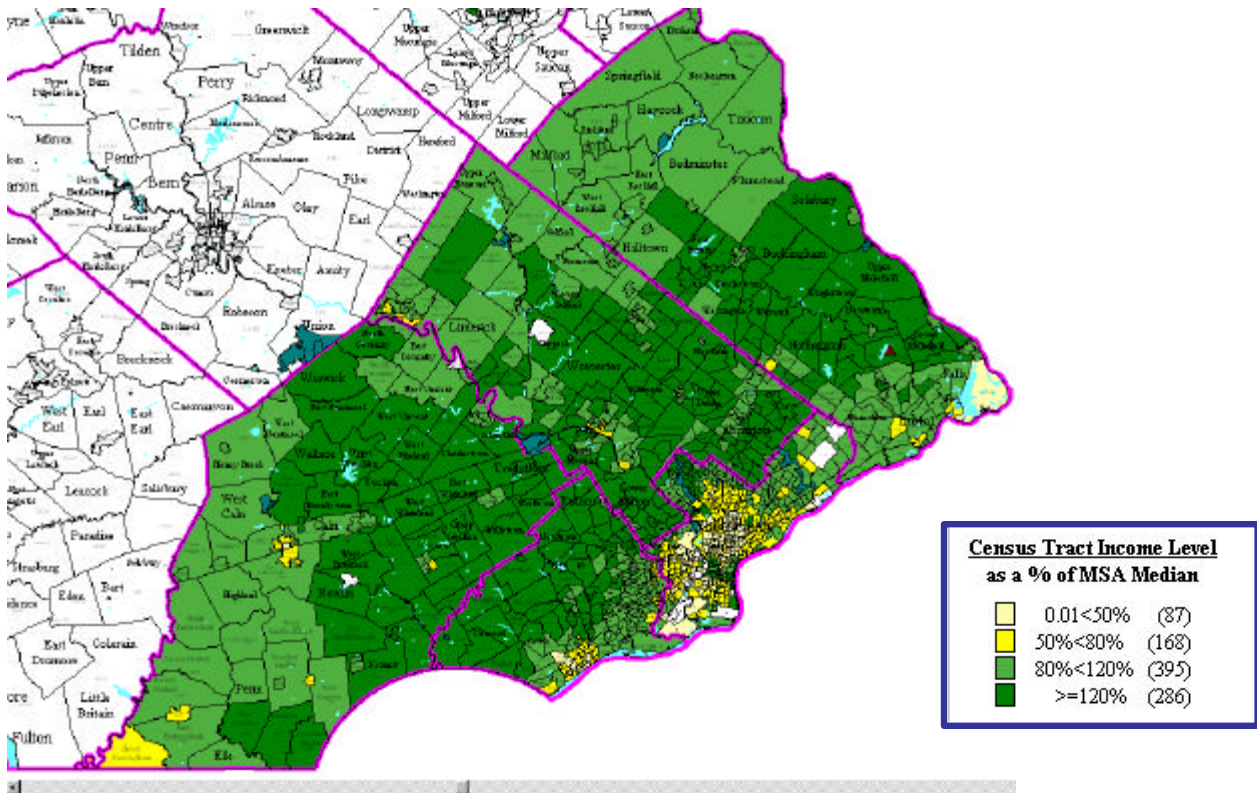
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Of the assessment area's total population, 29% live in low- and moderate-income geographies, with only 10% in the low-income geographies. As stated above, the city of Philadelphia has 82% of the assessment area's low-income geographies, and is home to 93% of the people living in low-income geographies in the assessment area. Most of the low-income geographies are located in areas of Philadelphia that would be very difficult for the bank to serve from the location of its one Philadelphia branch in Northeast Philadelphia. According to the FDIC Summary of Deposits information as of June 30, 2000, there are 46 depository institutions in Philadelphia with a total of 323 branches with \$23.11 billion in deposits. MB has one branch in Philadelphia with \$16.8 million in deposits. With the amount of competition MB faces in the city and its very limited branch presence, it is not surprising that MB does not make many loans in these areas of Philadelphia. The following table presents relevant demographic information.

<b>MB'S 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>	115	12	369,801	10
<b>Moderate-Income</b>	168	17	725,696	20
<b>Middle-Income</b>	395	41	1,580,995	42
<b>Upper-Income</b>	286	30	1,052,417	28
<b>Total</b>	964	100%	3,728,909	100%

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## Map of the Assessment Area



## Median Family Income

According to 1990 Census Bureau Statistics, the median family income for the assessment area was \$43,465, substantially higher than the statewide median of \$34,856.

Of the total number of families in the assessment area, 39% are designated as low- and moderate-income. A majority of these families (54%) live in middle- and upper-income geographies within the assessment area. The following table shows the number of families by income level designation.

MB'S ASSESSMENT AREA DEMOGRAPHICS BY INCOME		
	Number of Families	Percent
Low-Income Families	198,581	21
Moderate-Income Families	170,736	18
Middle-Income Families	222,367	23
Upper-Income Families	362,530	38
<b>Total Families</b>	<b>954,214</b>	<b>100%</b>

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### Housing

The assessment area contains 1,491,310 housing units, 64% of which are owner-occupied. Single family units comprise 32% of the housing units, while two-to-four family units comprise 50%, mobile homes 1%, and multi-family units 16%. The median housing value is \$114,506 and the median gross rent is \$517 per month. There is a significant disparity between the median housing value in the assessment area's middle-income (\$110,499) and upper-income geographies (\$197,038) and that in low-income (\$25,184) and moderate-income (\$43,635) geographies. The median age of housing stock is 36 years, about the same as the state median age of 34 years.

Owner-occupancy in low- and moderate-income geographies is 41% and 58%, respectively. This compares unfavorably to owner-occupancy levels of 65% and 73% in middle- and upper-income geographies, respectively. The overall owner-occupancy rate in the assessment area is 64%, which is somewhat lower than the statewide owner-occupancy rate of 71%. The following chart represents the number of owner-occupied housing units relative to the number of total available units within the assessment area.

MB'S ASSESSMENT AREA HOUSING PROFILE BY GEOGRAPHY			
Type of Geography	Total Units	Owner Occupancy	Percent Owner Occupied
Low-Income	144,332	58,612	41
Moderate-Income	302,900	174,731	58
Middle-Income	637,785	416,778	65
Upper-Income	406,293	297,977	73
Assessment Area	1,491,310	948,098	64

Owner-occupancy in designated geographies is used as proxy for residential mortgage demand in those geographies. The following chart reveals that a substantial majority of the owner-occupied housing units in the assessment area are located in the middle- and upper-income geographies.

MB'S ASSESSMENT AREA OWNER OCCUPANCY DISTRIBUTION BY GEOGRAPHY		
Type of Geography	Number Owner-Occupied Units	Percent of Total Owner-Occupied Units
Low-Income	58,612	6
Moderate-Income	174,731	19
Middle-Income	416,778	44
Upper-Income	297,977	31
All Geographies	948,098	100%



**Small Business Geographic Data**

The percentage of small businesses<sup>1</sup> located within designated geographies is used as a proxy to estimate demand for small business credit within those geographies. Information from Dun and Bradstreet on the number of businesses in the assessment area in 2000 was used to compile the following table. As this table illustrates, the substantial majority of small businesses in the assessment area are located in the middle- and upper-income geographies.

<b>MB'S ASSESSMENT AREA SMALL BUSINESS DISTRIBUTION BY GEOGRAPHY</b>		
<b>Type of Geography</b>	<b>Number of Small Businesses</b>	<b>Percent of Total Small Businesses</b>
<b>Low-Income</b>	6,950	6
<b>Moderate-Income</b>	14,862	12
<b>Middle-Income</b>	51,170	42
<b>Upper-Income</b>	49,135	40
<b>All Geographies</b>	122,117	100%

**Economic Characteristics**

MB's assessment area includes the five Pennsylvania counties in the Philadelphia MSA, which have experienced the same general downturn as other metropolitan areas over recent months. Job growth slowed in 2000, especially in the service sector which had been a mainstay of area growth. However, although labor markets are still fairly tight, wage and salary income is not forecast to decline. Even given the high cost of business and aging infrastructure, the area will see some gains in the near future, especially in construction, biotechnology, and healthcare. The concentration of major universities, pharmaceutical companies, and biotechnology have spurred the development of a biotech greenhouse in the Philadelphia suburbs, which will in turn stimulate growth in high wage jobs in these industries. The major employers in the five county area include the local, state and federal governments along with the University of Pennsylvania and Temple University, health care entities Jefferson Health System and Aetna/US Healthcare, Verizon Communications, and pharmaceutical companies Merck & Company and SmithKline Beecham.

According to community contacts made during this exam, predatory lending is an important concern for borrowers in the area, especially low- and moderate-income borrowers. Another problem mentioned by the contacts is the decrease in opportunities for mortgage lending due to banks' selling mortgage divisions and general industry consolidation. Small business opportunities exist for resourceful entrepreneurs who look beyond bank commercial loan officers for financing help. Banks are working with two other contacts made for the exam to distribute small business loan risk by participating on loans, even in low- and moderate-income areas such as Norristown.

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<sup>1</sup> Defined as those businesses with annual revenues of \$1 million or less.

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As of March 2001, the seasonally unadjusted<sup>2</sup> unemployment rate for the Philadelphia MSA was 4.1%, below the state unemployment rate of 4.9%. The unemployment rates for each of the separate counties in the MB assessment area follow, all of them less than the Philadelphia MSA's rate except for Philadelphia county at 6.2%. However, almost all of the area's unemployment rates were up from last year, following the state and US economic downturn.

	March 2001	March 2000
Philadelphia County	6.2%	5.9%
Montgomery County	3.2%	2.9%
Bucks County	3.6%	3.4%
Delaware County	3.8%	3.8%
Chester County	2.8%	2.7%
Philadelphia-MSA	4.1%	3.9%
Pennsylvania	4.9%	4.3%

Although none of the large regional and super-regional banks doing business in the assessment area are headquartered there, many banks and other financial institutions have branches in the region. In MB's assessment area, three super-regional national banks (First Union National Bank, Charlotte, NC, and PNC and Mellon Bank, both of Pittsburgh, PA) hold almost 50% of the market share in deposits. There are 130 financial institutions with a total of 1,619 branches in the assessment area, indicating the intense competition of many banks and other financial institutions. MB, with eight branches on June 30, 2000, holds 0.22% of deposit market share in its assessment area. In Montgomery County, MB's original base and still its key area of operations, competition is more evenly spread, with those same three super-regional banks holding 39% of the county's deposits, with a total of 45 institutions with 352 branches. However, MB holds almost 1% of the deposits in Montgomery County.

MB's Home Mortgage Disclosure Act (HMDA) loans 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 1999, when there were a total of 579 HMDA reporters. According to the 1999 HMDA statistics, Sovereign Bank, headquartered in Wyomissing, PA, is the largest HMDA loan originator in the bank's assessment area with 4.9% of the market. First Union National Bank in Charlotte, NC is the second largest with 4.89% of the market, and Chase Manhattan Mortgage Corp is third with 3.41%. MB ranks 38<sup>th</sup> with 0.7% of the assessment area HMDA loans.

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<sup>2</sup> Seasonally unadjusted unemployment rates were used for comparison purposes.

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**SCOPE OF EXAMINATION**

The evaluation of MB's CRA performance covered the period from May 1997 through March 2001. The examination included an analysis of the bank's:

- loan-to-deposit ratio,
- volume of loans extended inside and outside of the bank's assessment area,
- geographic distribution of loans within a given assessment area, with particular emphasis on lending penetration in low- and moderate-income geographies, and
- extent of lending to borrowers of different incomes, especially low- and moderate-income borrowers, and businesses of different sizes, especially small businesses.

Loan products evaluated included home purchase loans and refinancings of such loans, home improvement loans, and small business loans.

Written documentation of interviews conducted with community representatives and prepared by the Federal Reserve and other regulatory agencies were reviewed during the course of the examination.

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 on 1999 adjusted median family income data, made available by HUD.

**LOAN- TO- DEPOSIT RATIO**

A financial institution's loan-to-deposit ratio compares the institution's aggregate loan balances outstanding to its total deposits outstanding. The ratio is a measure of an institution's lending volume relative to its capacity to lend, and is derived by adding the quarterly loan-to-deposit ratios and dividing the total by the number of quarters.

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The loan-to-deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs. MB has maintained a strong loan-to-deposit ratio, averaging 93% over the past 15 quarters of operation and has consistently outperformed the peer group average ratio (74%) by a significant margin.<sup>3</sup> The following table shows MB's quarterly loan-to-deposit ratios for the 15 quarters since the bank's previous examination, together with the average loan-to-deposit ratio for the same period.

<b>MB'S HISTORICAL LOAN TO DEPOSIT RATIOS</b>			
<b>AS OF DATE</b>	<b>NET LOANS (THOUSANDS)</b>	<b>TOTAL DEPOSITS (THOUSANDS)</b>	<b>RATIO</b>
12/31/00	144,125	151,471	<b>95</b>
9/30/00	140,187	151,328	<b>93</b>
6/30/00	139,972	151,587	<b>92</b>
3/31/00	129,200	139,422	<b>93</b>
12/31/99	128,054	130,423	<b>98</b>
9/30/99	122,780	136,346	<b>90</b>
6/30/99	121,314	140,583	<b>86</b>
3/31/99	123,827	135,332	<b>92</b>
12/31/98	125,413	132,665	<b>95</b>
9/30/98	116,128	117,931	<b>98</b>
6/30/98	106,545	119,494	<b>89</b>
3/31/98	106,274	115,256	<b>92</b>
12/31/97	102,471	114,839	<b>89</b>
9/30/97	100,101	108,443	<b>92</b>
6/30/97	97,124	95,504	<b>100</b>
Quarterly Loan to Deposit Ratio Average Since Previous Examination			<b>93%</b>

Source: The Uniform Bank Performance Report prepared by the Federal Deposit Insurance Corporation for use by Federal regulators.

### **LENDING IN ASSESSMENT AREA**

An analysis was performed to determine the volume of loans extended inside and outside of the bank's assessment area as delineated for purposes of CRA. The results of the analysis indicate that a substantial majority of the bank's loans were extended inside the assessment area. Analysis consisted of an evaluation of HMDA loans and a sample of small business loans originated by the bank from January 1, 1999 through March 31, 2001. In 1997 and 1998, the bank made a total of 473 HMDA loans aggregating \$50 million. Analysis of these loans did not demonstrate any appreciable difference from the conclusions drawn from the 1999, 2000, and first quarter 2001 data, so detail of these loans has been omitted from this report. With the bank's growth and the establishment of the mortgage division since that time, the preponderance of mortgage loans made in the period since the last examination in May, 1997 were originated in 1999 and 2000.

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<sup>3</sup> MB's national peer group consists of all insured commercial banks having assets between \$100 million and \$300 million, with three or more banking offices and located in a metropolitan area.

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There were a total of 255 business loans extended in 1997 and 1998, aggregating \$31 million. However, the initial analysis revealed that these loans were originated in essentially the same geographical area and dollar amounts as the loans in 1999 and 2000. Therefore, to decrease regulatory burden on the bank, these years were not included in the overall commercial loan sample.

For home mortgage loans, at least 91% of both originations and total dollars extended in 1999, 2000 and first quarter 2001 were within the bank's assessment area. For small business loans, at least 74% of both originations and total dollars extended in the same time period were within the bank's assessment area. The following tables depict the volume of loans extended inside and outside of the bank's assessment area, with the percentage of the number and dollar amount of loans inside the assessment area appearing in bold.

MB HMDA LOAN PENTRATION NUMBER OF DOLLAR AMOUNT OF LOANS					
		Number of Loans	% of Loans	Dollar Amount	% of Dollar Amount
2001					
	Inside AA	216	<b>91</b>	30,946	<b>92</b>
	Outside AA	23	9	2,614	6
	Total	239	100	33,560	100
2000					
	Inside AA	818	<b>93</b>	108,112	<b>93</b>
	Outside AA	61	7	7,955	7
	Total	879	100	108,377	100
1999					
	Inside AA	865	<b>95</b>	123,717	<b>95</b>
	Outside AA	49	5	6,694	5
	Total	914	100	130,411	100

MB SMALL BUSINESS LOAN PENTRATION NUMBER OF DOLLAR AMOUNT OF LOANS					
		Number of Loans	% of Loans	Dollar Amount	% of Dollar Amount
2001					
	Inside AA	93	<b>79</b>	11,015,491	<b>77</b>
	Outside AA	25	21	3,385,244	23
	Total	118	100	14,400,735	100
2000					
	Inside AA	213	<b>80</b>	26,476,781	<b>75</b>
	Outside AA	54	20	8,709,080	25
	Total	267	100	35,185,861	100
1999					
	Inside AA	162	<b>75</b>	18,419,438	<b>74</b>
	Outside AA	55	25	6,566,419	26
	Total	217	100	24,985,857	100

**GEOGRAPHIC DISTRIBUTION OF LENDING**

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 reflected a reasonable overall dispersion throughout the assessment area.

**Home Mortgage Lending**

MB is not a major mortgage originator in the assessment area. According to 1999 aggregate HMDA data, 124,530 home mortgage loans were collectively originated by 579 financial institutions within the assessment area. MB ranked 38th, with a market share of 0.7%. Overall, residential mortgage lending activities currently account for roughly 62% of the bank's lending activity.

A review of MB's HMDA data revealed only modest lending in low- and moderate-income geographies within the assessment area. However, demographic, economic and other factors prevalent in the assessment area were considered in assessing the bank's penetration levels. Despite these factors, this evaluation did reveal the need for greater emphasis on lending to moderate-income geographies.

The most important of the mitigating factors is that only 29% of the assessment area's population resides in the low- and moderate-income geographies. Also impacting the bank's ability to generate HMDA loans is the amount of available housing in the low- and moderate-income geographies. Of the 1,491,310 available housing units in the assessment area, 144,332 are located in low-income geographies, with just 58,612 of those units (41%) owner occupied. These 58,612 units represent only 6% of the total number of owner-occupied units in the entire assessment area. There are 302,900 available housing units located in the moderate-income geographies, with 174,731 units (58%) owner-occupied. The great majority of available housing units (637,785) are located in the assessment area's middle-income geographies and 416,778 (65%) of those units are owner-occupied. In the upper-income geographies, there are 406,293 available housing units with 297,977 units (73%) owner-occupied. These figures indicate that there is a dearth of opportunities for home ownership in the assessment area's low- and moderate-income geographies, particularly since 50% of the housing units in the assessment area are multi-family homes.

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Other demographics impacting the bank's ability to originate loans in these areas include the fact that 42% of renters in the low- and moderate-income geographies spend greater than 30% of their monthly income for rent, making it difficult for them to afford the costs associated with a home purchase. The next tables depict the geographic distribution of the bank's HMDA loans and compare that distribution to the distribution of owner-occupied housing units in the assessment area.

MB ASSESSMENT AREA 1 <sup>st</sup> QUARTER 2001 HMDA REPORTABLE LOANS GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Owner-Occupied Units	Percent of Owner-Occupied Units	Percent of Loans / Percent of Units
Low-income	8	4	58,612	6	0.66
Moderate-income	13	6	174,731	19	0.32
Middle-income	79	37	416,778	44	0.84
Upper-income	116	53	297,977	31	1.71
All Geographies	216	100%	948,098	100%	1.00

MB ASSESSMENT AREA 2000 ALL HMDA REPORTABLE LOANS GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Owner-Occupied Units	Percent of Owner-Occupied Units	Percent of Loans / Percent of Units
Low-income	13	2	58,612	6	0.33
Moderate-income	56	7	174,731	19	0.37
Middle-income	305	37	416,778	44	0.84
Upper-income	444	54	297,977	31	1.74
All Geographies	818	100%	948,098	100%	1.00

MB ASSESSMENT AREA 1999 ALL HMDA REPORTABLE LOANS GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Owner-Occupied Units	Percent of Owner-Occupied Units	Percent of Loans / Percent of Units
Low-income	16	2	58,612	6	0.33
Moderate-income	57	7	174,731	19	0.37
Middle-income	295	34	416,778	44	0.77
Upper-income	497	57	297,977	31	1.84
All Geographies	865	100%	948,098	100%	1.00

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The next table shows the geographic distribution of MB's HMDA loans compared to that of the market in 1999<sup>4</sup>. Even though the percentage of HMDA loans originated by MB in low- and moderate-income geographies was small, it was comparable to the percentage originated by the market in 1999.

<b>MB ASSESSMENT AREA HMDA CENSUS TRACT DISTRIBUTION COMPARED TO MARKET</b>				
<b>Type of Geography</b>	<b>% of 1<sup>st</sup> Quarter 2001 MB Loans</b>	<b>% of 2000 MB Loans</b>	<b>% of 1999 MB Loans</b>	<b>% of 1999 Market Loans</b>
<b>Low-Income</b>	4	2	2	3
<b>Moderate-Income</b>	6	7	7	13
<b>Middle-Income</b>	37	37	34	43
<b>Upper-Income</b>	53	54	57	41
<b>All Geographies</b>	100%	100%	100%	100%

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<sup>4</sup> 1999 is the latest year for which aggregate HMDA data is available.

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### Small Business Loans

An analysis was performed of a sample of the commercial loans originated by MB from January 1999 through first quarter 2001. Dun and Bradstreet business demographics reveal that there were a total of 122,117 small businesses, including 3,029 agricultural entities, within the MB assessment area in 2000<sup>5</sup>. MB's extension of credit to these businesses is somewhat lower than the distribution of small businesses by geography income level. Moderate-income geographies received an average of 8% of small business loans, while 12% of total small businesses are located in these geographies. Middle-income geographies received an average of 25% of small business loans for their 42% share of total small businesses. Upper-income geographies received an average of 63% of small business loans for their 40% share of total small businesses. Not surprisingly, there were no small business loans made in the low-income geographies, as just 6% of small businesses are located in these geographies. The following tables depict the geographic distribution of the bank's small business loans and compare that distribution to the distribution of small businesses in the assessment area.

MB ASSESSMENT AREA 1 <sup>st</sup> QUARTER 2001 SMALL BUSINESS LOAN SAMPLE GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Small Businesses	Percent of Small Businesses	Percentage of Loans To Percentage of Businesses
Low-Income	0	0	6,950	6	0.00
Moderate-Income	2	7	14,862	12	0.58
Middle-Income	8	32	51,170	42	0.76
Upper-Income	17	61	49,135	40	1.53
All Geographies	27	100%	122,117	100%	1.00

MB ASSESSMENT AREA 2000 SMALL BUSINESS LOAN SAMPLE GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Small Businesses	Percent of Small Businesses	Percentage of Loans To Percentage of Businesses
Low-Income	4	8	6,950	6	1.33
Moderate-Income	2	4	14,862	12	0.33
Middle-Income	12	26	51,170	42	0.62
Upper-Income	29	62	49,135	40	1.55
All Geographies	47	100%	122,117	100%	1.00

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<sup>5</sup> The latest available data on small businesses from Dun and Bradstreet is from 2000.

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MB ASSESSMENT AREA 1999 SMALL BUSINESS LOAN SAMPLE GEOGRAPHIC DISTRIBUTION					
Type of Geography	Number of Loans	Percent of Loans	Number of Small Businesses	Percent of Small Businesses	Percentage of Loans To Percentage of Businesses
Low-Income	2	5	6,950	6	0.83
Moderate-Income	6	13	14,862	12	1.08
Middle-Income	8	17	51,170	42	0.40
Upper-Income	30	65	49,135	40	1.63
All Geographies	46	100%	122,117	100%	1.00

The next table compares the geographic distribution of MB's small business loans with that of the market in 1999<sup>6</sup>. MB's performance in the origination of loans to small businesses in low- and moderate-income geographies is comparable, if not better, than the market in 1999.

MB ASSESSMENT AREA GEOGRAPHIC DISTRIBUTION OF 1999 SMALL BUSINESS LOAN SAMPLE COMPARED TO MARKET				
Type of Geography	% of 1 <sup>st</sup> Quarter 2001 MB Loans	% of 2000 MB Loans	% of 1999 MB Loans	% of 1999 Market Loans
Low-Income	0	8	5	4
Moderate-Income	7	4	13	9
Middle-Income	32	26	17	41
Upper-Income	61	62	65	46
All Geographies	100%	100%	100%	100%

In summary, the examination revealed an overall reasonable geographic distribution of home mortgage loans and small business loans throughout the bank's assessment area.

### **DISTRIBUTION OF LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES**

A review of the demographic and economic characteristics of the assessment area, in conjunction with an analysis of HMDA and small business lending data, was conducted to ascertain the extent of lending to borrowers of different incomes and to businesses of different sizes. This analysis reflects the bank's reasonable penetration among both borrowers of different income levels and businesses of different sizes.

<sup>6</sup> 1999 is the latest year for which aggregate small business data is available.

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## Madison Bank

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### Borrower Characteristics

The adjusted annual median family incomes of the Philadelphia MSA for 2001, 2000 and 1999, as reported by the U.S. Department of Housing and Urban Development (HUD), are \$60,100, \$57,800 and \$55,600, respectively. The following table categorizes the dollar amounts recognized as low-, moderate-, middle- and upper-income, predicated upon adjusted median family income measures.

Year	HUD Adjusted Median Family Income	Low Income (<50%)	Moderate Income (50%-less than 80%)	Middle Income (80%-less than 120%)	Upper Income (120% or Greater)
2001	\$60,100	Less than \$30,050	\$30,050--\$40,079	\$40,080--\$72,119	\$72,120 or more
2000	\$57,800	Less than \$28,900	\$28,900--\$46,239	\$46,240--\$69,359	\$69,359 or more
1999	\$55,600	Less than \$27,800	\$27,800--\$44,479	\$44,480--\$66,720	\$66,720 or more

The penetration of all of the bank's HMDA loans among individuals of different incomes, including low- and moderate-income individuals, is reasonable in the context of applicable demographics.

MB offers many different mortgage products through its mortgage division, Philadelphia Financial Mortgage Company. A community contact in the area mentioned a lack of banks offering Pennsylvania Housing Finance Agency's (PHFA) Single Family Mortgage Revenue Bond Program (Bond), however, MB offers this program, which is specifically targeted to low- and moderate-income borrowers buying their first home. This program's income limits effectively reserve it for low- and moderate-income borrowers. A total of 24 of these loans were originated and reported on the bank's Loan Application Register (LAR) in 2000, most of them to moderate-income families in the assessment area.

Even with the number and variety of mortgage products available, MB's level of lending to low-income families is low. This may be partially attributed to the bank's lack of branches in most of the city of Philadelphia, where most (66%) of the assessment area's low-income families live. Also affecting the bank's loan penetration is the fact that of the families designated as low- or moderate-income, 54% reside in middle- and upper-income geographies. With the great disparity between housing values in low-income (\$25,184) and moderate-income (\$43,635) geographies and those in middle-income (\$110,499) and upper-income (\$197,038) geographies, there is a limited supply of affordable housing units available for purchase by low- and moderate-income families living in middle-income geographies. The distribution of loans to low- and moderate-income families is deemed reasonable when compared to the demographics of the assessment area. However, the distribution indicates the need for greater emphasis on loans to low-income families. Of the 954,214 families in the bank's assessment area, 198,581 (21%) are designated as low-income, while just 5% in 2000 and 4% in 1999 of loans were to low-income families.

## Madison Bank

The analysis of the bank's 1999, 2000, and first quarter 2001 HMDA data revealed the following income distribution for loans within the bank's assessment area.<sup>7</sup>

MB ASSESSMENT AREA 1 <sup>st</sup> QUARTER 2001 ALL HMDA REPORTABLE LOANS BORROWER INCOME DISTRIBUTION					
Income Level	Number of Loans	Percent of Loans	Number of Families	Percent of Families	Percent of Loans / Percent of Families
Low-income	5	2	198,581	21	0.09
Moderate-income	12	6	170,736	18	0.33
Middle-income	64	30	222,367	23	1.30
Upper-income	131	62	362,530	38	1.63
All Borrowers	212	100%	954,214	100%	1.00

MB ASSESSMENT AREA 2000 ALL HMDA REPORTABLE LOANS BORROWER INCOME DISTRIBUTION					
Income Level	Number of Loans	Percent of Loans	Number of Families	Percent of Families	Percent of Loans / Percent of Families
Low-income	36	5	198,581	21	0.24
Moderate-income	133	16	170,736	18	0.89
Middle-income	206	25	222,367	23	1.09
Upper-income	437	54	362,530	38	1.42
All Borrowers	812	100%	954,214	100%	1.00

MB ASSESSMENT AREA 1999 ALL HMDA REPORTABLE LOANS BORROWER INCOME DISTRIBUTION					
Income Level	Number of Loans	Percent of Loans	Number of Families	Percent of Families	Percent of Loans / Percent of Families
Low-income	37	4	198,581	21	0.19
Moderate-income	136	16	170,736	18	0.89
Middle-income	217	25	222,367	23	1.09
Upper-income	468	55	362,530	38	1.44

<sup>7</sup> HMDA reportable loans with no borrower income information available were excluded from the analysis. Of the 216 HMDA reportable loans in 1<sup>st</sup> quarter 2001, 4 had no borrower income information available. Of the 818 HMDA reportable loans in 2000, 6 had no borrower income information available. Of the 865 HMDA reportable loans in 1999, 7 had no borrower income information available.

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**Madison Bank**

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All Borrowers	858	100%	954,214	100%	1.00
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**Madison Bank**

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The next table shows the bank's loan distribution by borrower income compared to that of the market in 1999<sup>8</sup>.

<b>MB ASSESSMENT AREA HMDA BORROWER INCOME DISTRIBUTION COMPARED TO MARKET</b>				
<b>Type of Borrower</b>	<b>% of 1<sup>st</sup> Quarter 2001 MB Loans</b>	<b>% of 2000 MB Loans</b>	<b>% of 1999 MB Loans</b>	<b>% of 1999 Market Loans</b>
<b>Low-Income Borrowers</b>	2	5	4	11
<b>Moderate-Income Borrowers</b>	6	16	16	17
<b>Middle-Income Borrowers</b>	30	25	25	20
<b>Upper-Income Borrowers</b>	60	53	54	34
<b>Borrowers for which Income not Available</b>	2	1	1	18
<b>All Borrowers</b>	100%	100%	100%	100%

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<sup>8</sup> 1999 is the latest year for which aggregate HMDA data is available.

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**Madison Bank**

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**Lending to Small Businesses**

An analysis of the distribution of loans to businesses determined that the distribution of lending activities among small businesses is consistent with the institution's asset size, lending capacity, and business objectives and reflects an excellent penetration among business customers of different sizes.

For the purpose of this evaluation, 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. 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, indicates that 88% of the bank's commercial loans were designated as small business loans, as detailed in the following chart. This level remained stable from that of June 30, 1999, when small business loans also accounted for 88% of the bank's commercial loan portfolio.

<b>MB COMMERCIAL LOAN PORTFOLIO</b>		
	<b>AMOUNT OUTSTANDING AS OF 6/30/00 (\$000)</b>	<b>PERCENT</b>
<b>Loans with original amounts of \$100,000 or less</b>	9,672	21
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	13,646	29
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	18,037	38
<b>Total Small Business Loans</b>	<b>41,355</b>	<b>88</b>
<b>Loans with original amounts of greater than \$1,000,000</b>	5,557	12
<b>Total Commercial Loans</b>	<b>\$46,912</b>	<b>100%</b>

## Madison Bank

The next tables show the bank's small business loan originations within the bank's assessment area, derived from samples of the bank's small business loans in 1999, 2000, and first quarter 2001. The consistent origination of a majority of loans under \$100,000 reveals an ongoing commitment to the credit needs of the small businesses in the bank's assessment area.

<b>MB ASSESSMENT AREA</b>				
<b>1<sup>ST</sup> QUARTER 2001 SMALL BUSINESS LOAN SAMPLE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
<b>Loans with original amounts of \$100,000 or less</b>	16	59	592	13
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	6	22	929	20
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	5	19	3,165	67
<b>Total Small Business Loans</b>	27	100%	\$4,686	100%

<b>MB ASSESSMENT AREA</b>				
<b>2000 SMALL BUSINESS LOAN SAMPLE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
<b>Loans with original amounts of \$100,000 or less</b>	25	54	1,306	14
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	11	23	2,073	22
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	11	23	5,966	64
<b>Total Small Business Loans</b>	47	100%	\$9,345	100%

<b>MB ASSESSMENT AREA</b>				
<b>1999 SMALL BUSINESS LOAN SAMPLE</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
<b>Loans with original amounts of \$100,000 or less</b>	30	65	1,448	27
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	11	24	1,965	36
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	5	11	1,980	37
<b>Total Small Business Loans</b>	46	100%	\$5,393	100%



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## Madison Bank

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The next tables further quantify the bank's small business lending based upon the annual revenue of the business. Small business loans were analyzed to determine whether they were made to businesses with gross annual revenues of less than \$1 million. Business demographic data revealed that there were 143,873 businesses in the bank's assessment area in 2000, with 138,127 reporting revenue. Of the 138,127 reporting businesses, 122,117 (89%) had sales of less than \$1 million.

Of the 120 loans in the total sample, 84% were originated to businesses with gross annual revenues of \$1 million or less. Moreover, of the 101 loans originated to businesses with gross annual revenues of \$1 million or less, 67 (66%) were extended in an amount of less than \$100,000.

<b>MB ASSESSMENT AREA</b> <b>1<sup>st</sup> QUARTER 2001 SMALL BUSINESS LOAN SAMPLE</b> <b>BUSINESS REVENUES</b>				
	Number	Percent	\$000's	Percent
Loans to Businesses with Revenues of \$1 Million or less	23	85	4,287	92
Loans to Businesses with Revenues of more than \$1 Million	4	15	399	8
<b>Total Small Business Loans</b>	27	100%	\$4,686	100%

<b>MB ASSESSMENT AREA</b> <b>2000 SMALL BUSINESS LOAN SAMPLE</b> <b>BUSINESS REVENUES</b>				
	Number	Percent	\$000's	Percent
Loans to Businesses with Revenues of \$1 Million or less	38	81	7,629	82
Loans to Businesses with Revenues of more than \$1 Million	9	19	1,716	18
<b>Total Small Business Loans</b>	47	100%	\$9,345	100%

<b>MB ASSESSMENT AREA</b> <b>1999 SMALL BUSINESS LOAN SAMPLE</b> <b>BUSINESS REVENUES</b>				
	Number	Percent	\$000's	Percent
Loans to Businesses with Revenues of \$1 Million or less	40	87	4,383	81
Loans to Businesses with Revenues of more than \$1 Million	6	13	1,010	19
<b>Total Small Business Loans</b>	46	100%	\$5,393	100%

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**Madison Bank**

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In addition to loans originated by MB directly, the bank also serves small businesses in its assessment area by participating in the Montgomery County Micro Loan Fund. This fund was created and is administered by the Montgomery County Development Corporation. The corporation submits loan proposals for approval to the Partners for Small Business Development, Inc., a consortium of area banks of which MB is a member. To be eligible for consideration for loans in amounts of \$5,000 to \$30,000 through the fund, businesses must have annual sales of less than \$1 million, except for manufacturers, who may have up to \$2 million in annual sales. MB has committed \$25,000 to the fund for the calendar year 2001, and has participated in two loans through the fund to date for a total of \$2,500. At the time of this examination, there were several more loans being considered by the Partners.

In summary, the examination found that MB's penetration among borrowers of different income levels and businesses of different sizes was reasonable.

**RESPONSE TO SUBSTANTIATED COMPLAINTS**

There were no CRA complaints filed against MB during the exam period.

**COMPLIANCE WITH FAIR LENDING LAWS**

No credit practices were identified that violated the substantive provisions of the anti-discrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), Fair Housing Act, Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

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**Madison Bank**

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## APPENDIX

## GEOGRAPHIC DISTRIBUTION

## Home Mortgage

<b>MB ASSESSMENT AREA</b>				
<b>1<sup>st</sup> Quarter 2001 HMDA CENSUS TRACT DISTRIBUTION</b>				
<b>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>
Low-Income	8	4	584	2
Moderate-Income	13	6	1,296	4
Middle-Income	79	37	9,525	31
Upper-Income	116	53	19,148	63
All Geographies	216	100%	\$30,553	100%

<b>MB ASSESSMENT AREA</b>				
<b>2000 HMDA CENSUS TRACT DISTRIBUTION</b>				
<b>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>
Low-Income	13	2	1,310	1
Moderate-Income	56	7	4,274	4
Middle-Income	305	37	34,675	32
Upper-Income	444	54	67,853	63
All Geographies	818	100%	\$108,112	100%

<b>MB ASSESSMENT AREA</b>				
<b>1999 HMDA CENSUS TRACT DISTRIBUTION</b>				
<b>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>
Low-Income	16	2	1,615	1
Moderate-Income	57	7	3,889	3
Middle-Income	295	34	32,972	27
Upper-Income	497	57	85,241	69
All Geographies	865	100%	\$123,717	100%

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**Madison Bank**

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## Small Business

<b>MB</b>				
<b>GEOGRAPHIC DISTRIBUTION OF 1<sup>st</sup> QUARTER 2001 SMALL BUSINESS LOAN SAMPLE</b>				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	0	0	0	0
Moderate-Income	2	7	305	7
Middle-Income	8	32	1,512	32
Upper-Income	17	61	2,868	61
All Geographies	27	100%	\$4,686	100%

<b>MB</b>				
<b>GEOGRAPHIC DISTRIBUTION OF 2000 SMALL BUSINESS LOAN SAMPLE</b>				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	4	8	596	6
Moderate-Income	2	4	340	4
Middle-Income	12	26	1,122	12
Upper-Income	29	62	7,287	78
All Geographies	47	100%	\$9,345	100%

<b>MB</b>				
<b>GEOGRAPHIC DISTRIBUTION OF 1999 SMALL BUSINESS LOAN SAMPLE</b>				
Type of Geography	Number	Percent	\$000's	Percent
Low-Income	2	5	216	4
Moderate-Income	6	13	469	9
Middle-Income	8	17	575	11
Upper-Income	30	65	4,133	76
All Geographies	46	100%	\$5,393	100%

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**Madison Bank**

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**DISTRIBUTION OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS**

<b>MB ASSESSMENT AREA</b>				
<b>1<sup>ST</sup> QUARTER 2001 HMDA BORROWER INCOME DISTRIBUTION</b>				
<b>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 Borrowers</b>	5	2	340	1
<b>Moderate-Income Borrowers</b>	12	6	983	3
<b>Middle-Income Borrowers</b>	64	30	7,573	25
<b>Upper-Income Borrowers</b>	131	60	21,519	69
<b>Borrowers for which Income not Available</b>	4	2	501	2
<b>All Borrowers</b>	216	100%	30,916	100%

<b>MB ASSESSMENT AREA</b>				
<b>2000 HMDA BORROWER INCOME DISTRIBUTION</b>				
<b>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 Borrowers</b>	36	5	1,967	2
<b>Moderate-Income Borrowers</b>	133	16	12,212	11
<b>Middle-Income Borrowers</b>	206	25	24,196	22
<b>Upper-Income Borrowers</b>	437	53	68,822	64
<b>Borrowers for which Income not Available</b>	6	1	915	1
<b>All Borrowers</b>	818	100%	\$108,112	100%

<b>MB ASSESSMENT AREA</b>				
<b>1999 HMDA BORROWER INCOME DISTRIBUTION</b>				
<b>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 Borrowers</b>	37	4	2,149	2
<b>Moderate-Income Borrowers</b>	136	16	12,062	10
<b>Middle-Income Borrowers</b>	217	25	24,696	20
<b>Upper-Income Borrowers</b>	468	54	83,963	68
<b>Borrowers for which Income not Available</b>	7	1	847	1
<b>All Borrowers</b>	865	100%	\$123,717	100%

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