

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low-and moderate-income neighborhoods, consistent with safe and sound operation of the 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 Community Reinvestment Act (CRA) performance of **Twin Rivers Community Bank** prepared by the **Federal Reserve Bank of Philadelphia**, as of **August 4, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CRF part 228

DISCUSSION OF INSTITUTION'S PERFORMANCE

SCOPE OF EXAMINATION:

The scope of the examination consisted of an assessment of Twin Rivers Community Bank (TRCB) lending performance since the previous examination conducted as of February 12, 1996, by this Reserve Bank. An evaluation of the bank's lending activity is based primarily upon an analysis of home mortgage loans originated during 1996, as reflected in the 1996 Home Mortgage Disclosure Act Loan Application Register (HMDA LAR), and consumer, commercial, and home purchase loan activity during the first six months of 1997. The examination also included an evaluation of the institution's compliance with anti-discrimination laws and regulations. In addition, interviews were conducted with representatives of the Redevelopment Authority of the City of Bethlehem and the City of Easton's Department of Planning in an effort to better understand the credit needs of the bank's assessment area (AA), as delineated for purposes of CRA. The evaluation was based solely on those activities and initiatives which occurred during the period between examinations.

INSTITUTION'S RATING:

The institution's overall performance under the Community Reinvestment Act (CRA) is rated **SATISFACTORY**, based upon findings presented in the following discussion of the bank's performance.

The evaluation determined that the lending activities of Twin Rivers Community Bank (TRCB) are responsive to the credit needs of the bank's local community, including the community's low- and moderate-income geographies and low- and moderate-income individuals and families. Such assessment was made through the application of the CRA's Small Bank Performance Standards. Thus, the following criteria have been assessed: the bank's loan-to-deposit ratio; the volume of lending within its AA; the bank's lending penetration among borrowers of different incomes and businesses of different sizes, [including low- and moderate-income individuals and small businesses]; and the geographic distribution of loans originated by the bank throughout its AA, including any low- and moderate-income geographies within the AA. Additionally, the evaluation took into consideration demographic and economic data specific to the AA and relevant characteristics of the bank.

Accordingly, TRCB maintains an overall lending level that is deemed reasonable, for purposes of CRA, based on quarterly loan-to-deposit ratios since the previous examination and a comparison of growth rates in the bank's deposit base to those in its loan portfolio. The majority of the bank's loans (inclusive of home mortgage loans, non-HMDA consumer loans, and commercial loans) are geographically within its AA. Although the geographic dispersion of credit is concentrated in the AA's middle- and upper-income geographies, TRCB's lending presence within low- and moderate-income geographies, based primarily on the distribution of home purchase loans originated during 1996, is commensurate with the percentage of the AA's total population that resides in same. Additionally, nearly 35% of the total number (90) of home purchase loans originated by the bank during 1996 were extended to low- and moderate-income borrowers, which approximates the percentage of low- and moderate-income families residing in the AA. Finally, virtually all of TRCB's commercial and industrial loans and loans secured by nonfarm/nonresidential real estate businesses have been extended to small businesses.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION:

TRCB, which commenced operations October 15, 1990, is headquartered in Easton, Pennsylvania within Palmer Township, Northampton County. The bank is a wholly owned subsidiary of Vista Bancorp Inc. (Vista), which is based in Phillipsburg, New Jersey and reported total consolidated assets of \$538.8 million at June 30, 1997. In addition to TRCB, Vista wholly owns Phillipsburg National Bank, also based in Phillipsburg, New Jersey. TRCB represented approximately 25% of Vista's total consolidated assets at mid-year 1997. The bank opened two branch offices, in Bethlehem Township, Pennsylvania during the fourth quarter of 1996. At present, TRCB maintains four offices, including its main office which is located outside of downtown Easton.

The bank's Uniform Consolidated Reports of Condition and Income, filed as of June 30, 1997 for regulatory purposes, reported total assets of \$137.8 million, with total loans outstanding representing 67% of this amount. The following chart lists loan and deposit products offered by the bank.

| <u>Twin Rivers Community Bank</u> | |
|-----------------------------------|--------------------------------|
| <u>Loan Products</u> | <u>Deposit Products</u> |
| Installment Loans | Checking Accounts |
| Automobile/Boat/Mobile home Loans | Savings Accounts |
| Home Equity/Improvement Loans | Business Accounts |
| Home Equity Lines of Credit | Certificates of Deposit |
| Education Loans | Money Market Deposit Accounts |
| Residential Mortgages | Club Accounts |
| Small Business Loans | Individual Retirement Accounts |
| Commercial Loans | |

TRCB is primarily a retail lender, with a secondary emphasis on commercial lending. In dollar terms, 59% of the bank's total loans outstanding at June 30, 1997 consisted of residential real estate loans (inclusive of amounts drawn under revolving home equity credit lines), while 12% of the loan portfolio was comprised of credit extended for consumer or personal use and not secured by real estate. The balance of the portfolio was essentially comprised of loans secured by commercial real estate and commercial and industrial loans. Additional details of TRCB's loan mix over the past five years is presented under Loan-To-Deposit Ratio.

In addition to originating home mortgage credit for its own account, the bank maintains a formal arrangement with an external mortgage originator through which it solicits and processes mortgage loan applications. Such arrangement enables the bank to offer a variety of competitively priced residential mortgage products to its AA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION (continued):

TRCB also offers two special credit programs: the First Time Home Buyer Program and the Advance Home Improvement Program, each, of which, are targeted at low- and moderate-income individuals. In an effort to ensure that such programs remain responsive to the needs of low- and moderate-income segments, bank management regularly utilizes demographic and other data to maintain ongoing underwriting criteria for each, including qualifying income requirements. From January 1996 through July 1997, the bank originated 22 loans in an aggregate amount of \$1.3 million under the First Time Home Buyer Program. Although TRCB's management indicated that both programs have been actively promoted, to date, the bank has been unable to originate any home improvement loans under the Advance Home Improvement Program.

DESCRIPTION OF ASSESSMENT AREA -- TWIN RIVERS COMMUNITY BANK

[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.]

Census Tracts

Previously, TRCB's assessment area (AA), as designated for purposes of CRA, consisted of 20 contiguous census tracts in the northern portion of the Allentown/Bethlehem/Easton Metropolitan Statistical Area (MSA). Essentially, this AA consisted of the city of Easton and surrounding suburbs. With its opening of two branch offices in Bethlehem Township since the previous evaluation, one of which is in the city limits of Bethlehem, the bank expanded its AA to encompass all of Lehigh and Northampton Counties in the MSA. As such, the AA is currently comprised of 134 tracts, including the three cities of Allentown, Bethlehem, and Easton and several suburban geographies contiguous to each.

The following table summarizes the composition of the entire AA by census tract type and population.

| Twin Rivers Community Bank Assessment Area Census Tracts and Population | | | | |
|--|----------------|--------------------------------------|--------------------|--|
| Census Tract Type: | Number: | Percent of Total:Tracts in AA | Population: | Percent of Total: AA Population |
| Low: | 7 | 5.2 | 11,711 | 2.2 |
| Moderate: | 17 | 12.7 | 54,344 | 10.1 |
| Middle: | 86 | 64.2 | 355,953 | 66.1 |
| Upper: | 24 | 17.9 | 116,227 | 21.6 |
| Totals: | 134 | 100.0% | 538,235 | 100.0% |

Source: Federal Reserve System Board of Governors- Community Lending Analysis System (CLAS). The CLAS system reflects 1990 census data. Other tables and charts presented throughout this evaluation have been derived from the CLAS system unless otherwise noted.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA -- TWIN RIVERS COMMUNITY BANK (continued)

Income and Housing

The table below presents respective median incomes, housing values, and home ownership rates for the AA, MSA, and state.

| Twin Rivers Community Bank Assessment Area Demographic Comparison | | | |
|--|------------------|----------|--------------|
| | Assessment Area: | MSA: | Pennsylvania |
| Median Family Income: | \$ 38,627 | \$37,523 | \$34,856 |
| Median Housing Value: | \$100,101 | \$97,045 | \$69,075 |
| %Owner-Occupied Housing Units | 67.8% | 67.4% | 64.3% |

The next table categorizes households and families within the AA by both census tract (geography) type and income type.

| Assessment Area- Distribution of Households and Families by Geography and Income | | | | | | | | |
|---|---|----------|--|----------|---|----------|--|----------|
| | NUMBER OF HOUSEHOLDS BY GEOGRAPHY TYPE | % | NUMBER OF HOUSEHOLDS BY INCOME TYPE | % | NUMBER OF FAMILIES BY GEOGRAPHY TYPE | % | NUMBER OF FAMILIES BY INCOME TYPE | % |
| LOW | 3,948 | 1.9 | 42,601 | 21.0 | 2,506 | 1.7 | 23,358 | 15.9 |
| MOD | 19,914 | 9.8 | 33,451 | 16.5 | 12,270 | 8.3 | 27,148 | 18.4 |
| MIDDLE | 138,271 | 68.1 | 43,415 | 21.4 | 99,217 | 67.5 | 39,042 | 26.5 |
| UPPER | 41,038 | 20.2 | 83,704 | 41.1 | 33,089 | 22.5 | 57,534 | 39.2 |
| TOTAL: | 203,171 | 100.0% | 203,171 | 100.0% | 147,082 | 100.0% | 147,082 | 100.0% |

Of the AA's 203,171 households, 72.4 % are comprised of families. As shown in the first table, the AA's median family income is somewhat higher than the MSA median, and considerably higher than the state median. Moreover, the second table indicates that the percentage of low-income families within the AA is somewhat less than that of the state, while the percentage of moderate-income families approximates that of the state. Specifically, 18.8% and 18.7% of total families within the state were categorized as low-income and moderate-income, respectively. Nevertheless, applicable housing and income medians of the cities of Allentown, Bethlehem, and Easton are considerably less than those of the AA, as a whole, depicted as follows.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA -- TWIN RIVERS COMMUNITY BANK (continued)

Income and Housing (continued)

| Demographic Comparison | | | | |
|---|------------------------|------------------|------------------|---------------|
| | Assessment Area | Allentown | Bethlehem | Easton |
| Median Family Income | \$38,627 | \$31,972 | \$35,011 | \$26,360 |
| Median Housing Unit Value | \$100,101 | \$76,600 | \$90,600 | \$80,500 |
| Percentage of Owner Occupied Housing Units | 68% | 57% | 61% | 52% |

It should also be noted that, although less than 15% of the AA's population live in low- and moderate-income geographies, all of the low- and moderate-income geographies contained in the AA are located within the three cities. Not unlike many MSA's throughout the nation, the cities' respective income and housing measures are reflective of older urban central locations that have experienced economic decline, owing to a decreasing or vanishing manufacturing base and significant population shifts to newer suburban housing subdivisions.

Local Economy

Historically, the economies of both the AA and the MSA have been based on manufacturing with a substantial emphasis on steel manufacturing in the cities of Allentown and Bethlehem. The respective populations of Allentown and Bethlehem tripled during the years between 1900 and 1950, based on the steel industry's substantial underpinning of the economy. However, the city of Easton, in which the bank's main office is located, grew more slowly with a diverse manufacturing economy that included iron, steel, silk, textile, and clothing industries. In this regard, Allentown and Bethlehem expanded to have near contiguous borders, whereas Easton still remains physically apart from these cities. Like many areas and regions of the nation, the economies of the AA and MSA were impacted considerably by declining manufacturing activities in all three cities during the 1970's and 1980's, most notably steel manufacturing, while service industries increased significantly during the same period.

Based upon U.S. Census Bureau statistics, the AA's total population increased by 8% between 1980 and 1990. Based on projections by the Joint Planning Commission of the Lehigh-Northampton Counties, the population of the Lehigh Valley region, which encompasses the AA, is expected to increase by an additional 7% by the year 2000. At present, major employers within the MSA are Binney and Smith, Inc. (makers of Crayola Crayons), Victaulic PLC (a United Kingdom based manufacturer and supplier of various piping and gasket products), James River Corporation of Virginia (large manufacturer of paper and paper products), Mack Printing, and Maiers Bakery (a large regional bakery). Applicable labor summary statistics for the AA, MSA, and state from the 1990 census are presented below.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA -- TWIN RIVERS COMMUNITY BANK (continued)

Local Economy (continued)

| LABOR SUMMARY STATISTICS COMPARISON OF THE AA/MSA/STATE OF PENNSYLVANIA | | | | | | | |
|---|------------|-------------------------------|------------------|-------------|--------------------------------|------------|---------|
| | Population | | | Labor Force | | Unemployed | |
| | Total | Number of Persons 16 or Older | Percent of Total | Number | Percent of persons 16 or older | Number | Percent |
| ASSESSMENT AREA | 538,235 | 427,505 | 79% | 274,990 | 64% | 12,385 | 4.5% |
| MSA | 595,081 | 472,816 | 79% | 301,034 | 64% | 14,035 | 4.7% |
| STATE | 11,881,643 | 9,392,816 | 79% | 5,797,937 | 62% | 344,795 | 5.9% |

The July 1997 unemployment rate(not seasonally adjusted) for the MSA was 5.4%, compared to national and state unemployment rates of 5.0% and 5.4%, respectively. Notwithstanding the unemployment level for the MSA, unemployment rates for the cities of Allentown, Bethlehem, and Easton during the same period were higher at 6.6%, 6.2%, and 6.1% respectively.

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. Essentially, the ratio is a measure of an institution's lending volume relative to its capacity to lend.

Accordingly, TRCB's overall lending level, as measured by its quarterly loan-to-deposit ratios since the previous evaluation, is deemed reasonable, in context of the bank's size, financial condition, comparisons to average loan-to-deposit ratios for TRCB's national peer group¹, and a comparison of the growth in the bank's deposit base with the growth in its loan portfolio since the previous evaluation.

The following table depicts the institution's quarterly loan-to-deposit ratios since the previous examination. It also presents an average loan-to-deposit ratio. The quarterly loan-to-deposit ratio average is derived by adding the quarterly loan-to-deposit ratios and dividing by the number of quarters since the previous examination.

¹TRCB's national peer group consists of all commercial banks having assets between \$100 and \$300 million with three or more banking offices, and located in a metropolitan area.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued):

| Twin Rivers Community Bank's Historical Loan-to-Deposit Ratio | | | | |
|--|--------------------------|-------------------------------|--------|-------------|
| As of | Net Loans (thousands) | Total Deposits (thousands) | Ratio% | Peer Ratio% |
| 03/31/96 | \$70,843 | \$ 87,830 | 80.7% | 66.5% |
| 06/30/96 | \$73,750 | \$ 93,053 | 79.3% | 65.6% |
| 09/30/96 | \$76,780 | \$ 97,177 | 79.0% | 66.9% |
| 12/31/96 | \$77,971 | \$101,944 | 76.5% | 70.6% |
| 03/31/97 | \$82,585 | \$111,736 | 73.9% | 70.6% |
| 06/30/97 | \$91,882 | \$122,207 | 75.2% | 72.0% |
| Quarterly Loan to Deposit Ratio Average Since the Previous Examination | | | 77.4% | 68.7% |

Source: Uniform Bank Performance Reports prepared by the Federal Deposit Insurance Corporation for use by federal regulators

The next table depicts the bank's loan-to-deposit ratios and growth rates within assets, loans, and deposits since year-end 1993.

| | 12/31/96 | 12/31/95 | 12/31/94 | 12/31/93 |
|-----------------|----------|----------|----------|----------|
| Loan to Deposit | 76.5% | 79.3% | 82.5% | 80.2% |
| Asset Growth | 20.8% | 12.2% | 28.1% | 54.0% |
| Net Loan Growth | 13.4% | 10.2% | 31.8% | 52.2% |
| Deposit Growth | 17.6% | 14.6% | 28.1% | 51.0% |

The bank's year-end loan-to-deposit ratios since December 31, 1994 have trended downward as total deposits increased more rapidly than total loans throughout 1996 and 1995. This trend has continued into the first half of 1997 as total loans outstanding increased at a rate of 23.4% for the 12 months ended June 30, 1997 while total deposits grew by 31.3%. It is also noteworthy that the bank's loan-to-deposit ratio has generally decreased during the five consecutive quarters between March 31, 1996 and June 30, 1997 while the corresponding national peer average has consistently increased. It is additionally noted that the bank significantly increased its level of investment holdings, (inclusive of U.S. Treasury and Agency obligations and municipal securities), during calendar year 1996.

Notwithstanding such trends and comparisons, TRCB has maintained an overall lending level, since the previous evaluation, wherein quarterly loan to deposit ratios have consistently exceeded peer averages. Moreover, total loans outstanding represented 66.9% of total assets at December 31, 1996, as compared to a peer average of 61.6%. In this regard, total loans outstanding at year-end 1996 reflects an annual net increase of \$9.3 million, with such increase concentrated in loans secured by real estate.

The table below presents the bank's loan mix over a five year period, reflecting shifts in various loan portfolio components since year end 1994.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued):

| Loan Type | 12/31/96 | % | 12/31/95 | % | 12/31/94 | % |
|--------------------|----------|---------------|----------|---------------|----------|---------------|
| Real Estate | 63,375 | 80.5 | 53,372 | 76.8 | 54,460 | 86.5 |
| Commercial | 3,105 | 3.9 | 3,262 | 4.7 | 2,386 | 3.8 |
| Consumer Loans | 9,738 | 12.4 | 7,979 | 11.5 | 3,856 | 6.1 |
| Agricultural | 0 | 0 | 0 | 0 | 25 | 0.04 |
| Other | 2,546 | 3.2 | 4,857 | 7.0 | 2,250 | 3.6 |
| Total | 78,764 | 100% | 69,470 | 100% | 62,977 | 100 |
| Loan/Deposit Ratio | 76.5% | PEER 70.7% | 79.3% | PEER 65.6% | 82.5% | PEER 66.1% |

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

LENDING IN ASSESSMENT AREA:

The criterion of this performance category evaluates an institution's lending in and out of its AA. In terms of number, a majority of loans, originated by TRCB, are extended to borrowers within its AA. Thus, the bank's level of lending within its AA meets the standards of satisfactory performance under CRA.

This overall assessment is based primarily on an overall analysis of all loans (inclusive of non-mortgage consumer loans, home purchase mortgage loans, and commercial loans) originated by the bank during the six months ended June 30, 1997. Additionally, all of TRCB's home mortgage loan originations, as reported in its 1996 Home Mortgage Disclosure Act (HMDA) Loan Application Registers (LAR), were reviewed and analyzed to determine the bank's lending presence within its AA.

Presented below, is a summary of the bank's loans (in terms of number) originated inside and outside of its AA during the first half of 1997.

| Twin Rivers Community Bank Loan Originations (January through June 1997) | | | | | | | | |
|--|----------------|------|-------------------|------|------------------|------|-------|------|
| | Consumer Loans | % | Residential Loans | % | Commercial Loans | % | Total | % |
| Inside | 394 | 75 | 58 | 92 | 143 | 89 | 595 | 79 |
| Outside | 134 | 25 | 5 | 8 | 17 | 11 | 156 | 21 |
| Total | 528 | 100% | 63 | 100% | 160 | 100% | 751 | 100% |

Additionally, a summary of the bank's 1996 home mortgage lending within and outside of its AA is presented as follows:

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA (continued):

| | NUMBER | % | DOLLARS | % |
|---|--------|-----|----------|-----|
| TOTAL LOANS ORIGINATED | 216 | 100 | \$10,871 | 100 |
| WITHIN AA (i.e., Loans originated to finance residential dwellings located inside the AA) | 208 | 96 | \$10,316 | 95 |
| OUTSIDE AA | 8 | 4 | \$ 555 | 5 |

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:

This assessment category examines a bank's distribution of loans extended within its AA to borrowers of differing incomes and businesses of different sizes, especially low- and moderate-income borrowers and small businesses. Borrowers of differing incomes have been defined by their income relative to the MSA median family income for 1996. Business size has been measured via an evaluation of lending penetration among small businesses. For purposes of this evaluation, a loan to a small business is defined pursuant to the instructions for preparation of the Consolidated Reports of Condition and Income as filed for regulatory and supervisory purposes.

Accordingly, the distribution of loans among borrowers reflects a reasonable penetration among individuals of different income levels and businesses of different sizes, including low- and moderate-income borrowers and small businesses, in context of TRCB's asset size, the substantial degree of competition among financial institutions within the AA and MSA, and applicable demographics of the AA.

Borrowers of Different Incomes

Given the substantial volume of home mortgage credit that TRCB originates, such credit is deemed a major product line of the bank for purposes of CRA. Thus, home mortgage loans originated during 1996 were utilized to assess the overall lending penetration among borrowers of different incomes. TRCB received 273 applications for home mortgages during 1996 and originated 208 loans to finance residential dwellings located in its AA in an aggregate amount of \$10.3 million. A summary of home mortgage originations for 1996, by loan type, is presented below in terms of number and dollar amounts.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZE (continued):

| | 1996 HMDA DATA Total Loan Originations | | | |
|--------------------|---|-------------|---------------|-------------|
| | Number | % | Amount | % |
| PURCHASES | 90 | 43.3 | 6,160 | 59.7 |
| REFINANCES | 73 | 35.1 | 3,120 | 30.2 |
| HOME IMPROVEMENT | 45 | 21.6 | 1,036 | 10.1 |
| TOTAL LOANS | 208 | 100% | 10,316 | 100% |

Source: TRCB-s 1996 HMDA LAR

As noted under Description of Twin Rivers Community Bank's Assessment Area, median family incomes of the AA and the MSA, based on 1990 U.S. Census data, are \$38,627 and \$37,523, respectively. The 1996 adjusted median family income for the MSA, as estimated by the U.S. Department of Housing and Urban Development (HUD), is \$43,800, which result in the following income categories:

| Year | Median Family Income | Low Income (<50%) | Moderate Income (50%-79%) | Middle Income (80%-119%) | Upper Income (120% or Greater) |
|------|----------------------|--------------------|---------------------------|--------------------------|--------------------------------|
| 1996 | \$43,800 | Less than \$21,899 | \$22,900 - \$35,039 | \$35,040 - \$52,559 | \$52,560 or more |

Accordingly, TRCB's profile of borrowers within the AA, based on applicable demographics and a distribution analysis of total home mortgage loans originated during the 12 months ended December 31, 1996, is presented as follows.

| Borrower Income Distribution | | | | |
|------------------------------|---|----------------|--|--------------|
| Borrower Income Category | AA Demographics (*Families Within Income Categories) | | Home Mortgage Distribution (Based on 1996 adjusted median income) | |
| | Number | Percent | Number | Percent |
| Low and Moderate | 50,506 | 34.4 | 52 | 25.0 |
| Middle | 39,042 | 26.5 | 55 | 26.4 |
| Upper | 57,534 | 39.1 | 97 | 46.7 |
| Income not available | Not Applicable | Not Applicable | 4 | 1.9 |
| Total Families | 147,082 | 100.0 | 208 | 100.0 |

*Number of families based on 1990 census data.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZE (continued):

Based on the foregoing and the AA-s overall employment levels, as noted under **Description of Twin Rivers Community Bank-s Assessment Area**, it is reasonable to expect that approximately 35% of TRCB-s lending activity would be associated with low- and moderate-income borrowers. However, as shown above, the bank-s lending penetration among low- and moderate-income borrowers is something less; while a more than proportionate lending presence exists among upper-income borrowers relative to applicable demographics. That said, a lending distribution skewed to upper-income borrowers is not deemed unreasonable for purposes of CRA in view of the fact that the largest percentage of families within the AA have been designated as upper income. Also, TRCB-s lending profile during 1996 should be tempered somewhat by demographic make-up of its previous AA in that the bank delineated the present AA in the fourth quarter of 1996. Previously, the bank-s AA was comprised of an even larger percentage of upper-income families.

Notwithstanding the bank-s overall home mortgage lending profile with respect to low- and moderate-income borrowers, as profiled above, 1996 HMDA data also indicates that 31 or 59.6% of TRCB-s 52 mortgages originated to low- and moderate-income applicants were home purchase loans. More importantly, 31 or 34.4% of the 90 home purchase loans originated by the bank in 1996 were extended to low- and moderate-income applicants, which corresponds to the applicable demographic measure. With respect to home purchase finance, this level of penetration among low- and moderate-income borrowers is notable in that, typically, a substantial portion of the low-and moderate-income segment of any AA is unable to finance the purchase of a home, owing to housing costs beyond its reach and/or the inability to meet closing costs and down payment requirements. In this regard, overall housing affordability within TRCB-s AA is somewhat less than that of the state, as a whole, as reflected in housing affordability ratios for the AA and state of .32% and .42%, respectively².

In summary, 1996 home mortgage loans are recapped below by loan type and borrower income category.

| Twin Rivers Community Bank 1996 Loans Originated | | | | | | | | |
|--|-----------|------|------------|------|------------------|------|-------------|------|
| | Purchases | | Refinances | | Home Improvement | | Total Loans | |
| | # | % | # | % | # | % | # | % |
| Low/Moderate | 31 | 34.4 | 15 | 20.6 | 6 | 13.3 | 52 | 25.0 |
| Middle | 26 | 28.9 | 17 | 23.3 | 12 | 26.7 | 55 | 26.4 |
| Upper | 30 | 33.4 | 40 | 54.7 | 27 | 60.0 | 97 | 46.7 |
| Income not available | 3 | 3.3 | 1 | 1.4 | N/A | N/A | 4 | 1.9 |
| Total | 90 | 100% | 73 | 100% | 45 | 100% | 208 | 100% |

²Comparative Housing Affordability(CHSA)ratios are derived from the Federal Reserve System-s Community Lending Analysis System,(CLAS). The CHS ratio is calculated by dividing median household income by median housing value. The ratio represents the amount of single family owner-occupied housing that can be purchased by a median-income household with a dollar of income. Values closer to 1.0 are indicative of greater affordability.

Note: The 1996 HMDA LAR contains applicant income for mortgage-related credit. Generally, the gross annual incomes reported are derived from employment and other sources and were considered by the bank in its credit decision.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZE (continued):

It should also be noted that, in addition to affordable housing credit offered through participation in various secondary mortgage market programs, TRCB offers home purchase and home improvement loans, specifically designated for the AA's low- and moderate-income population segments, through two of its own programs. The First Time Home Buyer Program (FTHB) and the Neighborhood Home Improvement Program (NHIP), which are also noted under **Description of Institution**, stipulate that applicants be part of a household with an annual income of no more than \$30,900. The maximum home purchase price under FTHB is \$80,500; while loans from \$1,000 to \$20,000 are available under NHIP with a maximum loan to value ratio of 100%. Although no home improvement loans have been originated under NHIP, to date, the bank has originated eight home purchase loans in an aggregate amount of \$534,950 under FTHB during the year-to-date period ended August 15, 1997.

Also, TRCB has been designated as the lead bank in a loan program established in connection with the Rest Lawn Housing Project in Easton (Restlawn). Under this program, properties currently owned by the City of Easton, are sold at appraised values with the right of first refusal extended to renters, then to low- and moderate- income individuals, then to other individuals, then to investors. Collectively, investors may own no more than a maximum of 25% of the properties available through the Restlawn program at any one time. The program provides for fixed and variable interest rate loans with 30 year terms and no down payment. Although a loan pool amount, pursuant to the program, had not been established at the time of this evaluation, two other area banks (i.e., Nazareth National Bank & Trust Co., Nazareth, Pennsylvania and Lafayette Bank, Easton, Pennsylvania) had also formally agreed to participate in the program.

Ongoing participation in such programs facilitates a sustained lending penetration by TRCB among its AA's low- and moderate-income population segments, which, in turn, portends an increased lending presence within the AA's low- and moderate-income geographies. Details of TRCB's geographic distribution of lending activities within its AA's low- and moderate-income geographies is presented in detail under the next Performance Category, **Geographic Distribution of Loans**.

Businesses of Different Sizes:

A small business loan, for purposes of CRA, means a loan included in loans to small businesses as defined in the instructions for preparation of the Consolidated Reports of Condition and Income as filed for regulatory and supervisory purposes. Based on the Consolidated Reports of Condition and Income prepared and filed by TRCB as of June 30, 1996 and June 30, 1997, small business loans (inclusive of loans secured by non-farm/non-residential real estate and commercial and industrial loans) are detailed as follows:

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZE (continued):

Businesses of Different Sizes (continued):

| <u>Loans to Small Businesses</u> | | | | | | | | |
|---|-------------------------------|--------------------|-----------------------|--------------------|----------------------------------|--------------------|-----------------------|--------------------|
| Consolidated Reports of Condition and Income as of June 30, 1996 and June 30, 1997 | | | | | | | | |
| Schedule RC-C Part II | | | | | | | | |
| Loans Secured by Nonfarm Nonresidential Properties | | | | | | | | |
| | <u>Number of Loans</u> | | <u>Percent</u> | | <u>Amount Outstanding</u> | | <u>Percent</u> | |
| | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> |
| With original amounts of \$100,000 or less | 22 | 63 | 31% | 47% | 1,278 | 3,061 | 11% | 17% |
| With original amounts of more than \$100,000 through \$250,000 | 31 | 45 | 44% | 33% | 4,190 | 6,687 | 36% | 37% |
| With original amounts of more than \$250,000 through \$1,000,000 | 18 | 27 | 25% | 20% | 6,217 | 8,469 | 53% | 46% |
| TOTALS | 71 | 135 | 100% | 100% | 11,685 | 18,217 | 100% | 100% |

| <u>Loans to Small Businesses</u> | | | | | | | | |
|---|-------------------------------|--------------------|-----------------------|--------------------|----------------------------------|--------------------|-----------------------|--------------------|
| Consolidated Reports of Condition and Income as of June 30, 1996 and June 30, 1997 | | | | | | | | |
| Schedule RC-C Part II | | | | | | | | |
| Commercial and Industrial Loans | | | | | | | | |
| | <u>Number of Loans</u> | | <u>Percent</u> | | <u>Amount Outstanding</u> | | <u>Percent</u> | |
| | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> | <u>1996</u> | <u>1997</u> |
| With original amounts of \$100,000 or less | 121 | 86 | 90.3% | 85.1% | 2,252 | 1,349 | 62.0% | 52.0% |
| With original amounts of more than \$100,000 through \$250,000 | 11 | 9 | 8.2% | 8.9% | 1,023 | 593 | 28.0% | 23.0% |
| With original amounts of more than \$250,000 through \$1,000,000 | 2 | 6 | 1.5% | 6.0% | 373 | 671 | 10.0% | 25.0% |
| TOTALS | 134 | 101 | 100% | 100% | 3,648 | 2,613 | 100% | 100% |

All of the bank's commercial and industrial loans and loans secured by nonfarm/nonresidential properties, outstanding as of June 30, 1997 were categorized as small business loans (i.e. originated in an amount of \$1,000,000 or less). Correspondingly, as of June 30, 1996, all loans secured by nonfarm/nonresidential properties were small business loans, while 95% of all commercial and industrial loans were categorized as loans to small businesses. In terms of number, loans originated in an amount of \$100,000 or less represent the largest component of loans extended to small businesses (i.e. combined commercial and industrial loans and loans secured by nonfarm/nonresidential real estate originated in amounts of \$1,000,000 or less) outstanding at mid-year 1996 and 1997. Such lending profile evidences an affirmative response to small business credit needs.

DISCUSSION OF INSTITUTION-S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZE (continued):

Businesses of Different Sizes (continued):

It is also noted that TRCB, together with several other financial institutions that operate in its AA, participates in the Bethlehem Economic Development Corporation (BEDCO) loan pool. The BEDCO loan pools express purpose is to provide an incentive to local businesses to create or retain jobs within the city of Bethlehem. To date, TRCB has committed \$175,000 to the pool; three loans were originated from the pool during the second quarter of 1997.

The bank also offers, through a franchise arrangement with an external third-party, an asset-based commercial credit service to address the cash management needs of small- and medium-size businesses. Provided under the moniker of Business Manager Program, TRCB purchases accounts receivable of its commercial borrowers on a discounted, full-recourse basis, thereby availing small- and medium-size businesses improved cash flow. At present, the bank services five accounts under the program with aggregate outstandings of \$306,000.

GEOGRAPHIC DISTRIBUTION OF LOANS:

The geographic distribution of loans measures an institution-s lending presence in low-, moderate-, middle-, and upper-income geographies within its AA. For purposes of this evaluation, the geographic distribution of TRCB-s home mortgage lending activities for 1996, as reflected in 1996 HMDA, was primarily utilized to make an assessment. Additionally, the assessment is supported by a distribution analysis of all non-HMDA consumer loans, home purchase loans, and commercial loans originated during the six months ended June 30, 1997.

Accordingly, the geographic distribution of home mortgage loans originated during 1996 reflects a reasonable dispersion throughout the AA, including low- and moderate-income geographies.

The following table details, by geography type, all home mortgage loans (inclusive of purchase, refinance, and home improvement loans) originated during 1996, comparing same to applicable AA demographics.

| Geographic Distribution of 1996 (Home Mortgage Loans) | | | | | | |
|--|------------------|--------|------------------------------|----------------|-------------------|----------------|
| Income Characteristics | | | 1996 Loans Originated | | Population | Percent |
| | | | Number | Percent | | |
| (# tracts in TRCB-s AA) | (% of AA) | | | | | |
| Low/Mod Income | 24 | 18.0 | 17 | 8.2 | 66,055 | 12.0 |
| Middle Income | 86 | 64.0 | 123 | 59.1 | 355,953 | 66.0 |
| Upper Income | 24 | 18.0 | 68 | 32.7 | 116,227 | 22.0 |
| Total R/E Loans | 134 | 100.0% | 208 | 100.0% | 538,235 | 100.0% |

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS:

The foregoing data reflects a somewhat limited lending presence, in terms of number, in the AA's low- and moderate-income geographies with an overall lending profile that is skewed to upper-income geographies. Nevertheless, a closer examination of 1996 HMDA data and consideration of other aspects of TRCB's lending profile, including overall lending activity during the first half of 1997, mitigates the seemingly limited lending presence in the AA's low- and moderate-income geographies.

Similar to the discussion regarding lending penetration among low- and moderate-income borrowers, irrespective of geography, presented under **Lending to Borrowers of Different Incomes and Businesses of Different Sizes**, additional details of the geographic lending distribution by product type shows that the percentage of total home purchase loans originated during 1996 to finance properties in low- and moderate-income geographies reasonably corresponds to the percentage of the total AA population that resides in same. The table below details the bank's geographic lending distribution by product type.

| Twin Rivers Community Bank 1996 Loans Originated | | | | | | | | |
|--|-----------|------|------------|------|------------------|------|-------------|------|
| | Purchases | | Refinances | | Home Improvement | | Total Loans | |
| | # | % | # | % | # | % | # | % |
| Low/Moderate | 10 | 11.1 | 4 | 5.5 | 3 | 6.7 | 17 | 8.2 |
| Middle | 53 | 58.9 | 41 | 56.2 | 29 | 64.4 | 123 | 59.1 |
| Upper | 27 | 30.0 | 28 | 38.3 | 13 | 28.9 | 68 | 32.7 |
| Total | 90 | 100% | 73 | 100% | 45 | 100% | 208 | 100% |

With respect to home mortgage credit, the evaluation of the bank's lending presence within low- and moderate-income geographies has been tempered by the disproportionate level of the AA's rental housing units within such geographies. As noted below, nearly 70% of the total housing units in low-income geographies are rental properties, while almost half the number of housing units in moderate-income geographies are rental units.

| Assessment Area - Housing Summary | | | | | |
|-----------------------------------|-------------|----------------------|------|------------------------|------|
| | Total Units | Owner Occupied Units | % | Number of Rental Units | % |
| LOW | 4,238 | 963 | 22.7 | 2,968 | 69.3 |
| MODERATE | 21,988 | 9,668 | 44.0 | 10,389 | 47.2 |
| MIDDLE | 144,772 | 100,397 | 69.3 | 38,346 | 38.2 |
| UPPER | 42,682 | 34,223 | 80.2 | 6,888 | 16.1 |
| TOTAL | 213,680 | 145,251 | 68.0 | 58,591 | 27.4 |

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued):

Additionally, it bears mentioning that 66% of the total number of mortgages originated in the AA during 1996 are geographically contained within the bank's previous AA (i.e. the 20 census tracts encompassing the city of Easton and surrounding suburbs). Such a concentration of credit within the present AA is not surprising, nor deemed unreasonable for purposes of CRA, given that TRCB, which is headquartered in Easton, expanded its previous AA as recently as the fourth quarter of 1996 with the opening of two additional branch offices. As previously noted under **Description of Assessment Area/Twin Rivers Community Bank**, the AA was expanded to encompass all of Northampton and Lehigh Counties, including all three of the MSA's major cities, (Allentown, Bethlehem, and Easton).

Within this Eastoncentric lending profile, 1996 HMDA data indicates that the bank maintains a considerable lending presence within the city of Easton, especially low- and moderate-income geographies. TRCB originated 13 of the total 193 home purchase mortgages extended during 1996 to finance owner-occupied residential dwellings in Easton, making it the second largest provider of home purchase mortgages within the city, behind Mortgage America Inc., which originated 36 home purchase mortgages. More importantly, TRCB was the second largest provider of home purchase mortgages to the city's low- and moderate-income geographies, with seven or more than half of its 13 mortgages extended to finance residential dwellings in such geographies. This represents a 23% market share of the 30 home purchase mortgages originated in low- and moderate-income geographies in 1996. Mortgage America Inc. was the largest provider of mortgages to low- and moderate-income geographies with eight of its 36 mortgages originated to finance home purchases in same.

It is also worth noting that 1996 home mortgage lending activity includes a presence, albeit nominal, in the cities of Allentown and Bethlehem. Specifically, TRCB originated six mortgages to finance the purchase of owner-occupied properties within Allentown and Bethlehem, including two properties in low- and moderate-income geographies.

Moving forward to the first half of 1997, data compiled by TRCB's management reflects an increased lending presence in the AA's low- and moderate-income geographies regarding the extension of home purchase credit. Management attributes such increased presence to the increased number of loans originated via the bank's FTHB program as previously discussed under **Description of Institution and Lending to Borrowers of Different Incomes and Businesses of Different Sizes**. As already noted, eight mortgages originated in aggregate amount of \$534,950 were extended under this program during year-to-date period ended August 31, 1997. A recap, by geography type, of total loans, including home purchase, non-HMDA consumer, and commercial loans, originated during the six months ended June 30, 1997 is presented below.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued):

| Twin Rivers Community Bank Loan Originations January -- June 1997 | | | | | | | | |
|---|----------------|--------|-------------------|--------|------------------|--------|-------|--------|
| Income | Consumer Loans | % | Residential Loans | % | Commercial Loans | % | Total | % |
| Low | 39 | 7.4 | 8 | 12.7 | 12 | 7.5 | 59 | 7.9 |
| Moderate | 37 | 7.0 | 6 | 9.5 | 33 | 20.6 | 76 | 10.1 |
| Middle | 231 | 43.8 | 34 | 54.0 | 74 | 46.3 | 339 | 45.1 |
| Upper | 87 | 16.5 | 10 | 15.9 | 24 | 15.0 | 121 | 16.1 |
| Undefined | 134 | 25.3 | 5 | 7.9 | 17 | 10.6 | 156 | 20.8 |
| Total | 528 | 100.0% | 63 | 100.0% | 160 | 100.0% | 751 | 100.0% |

COMPLIANCE WITH ANTIDISCRIMINATION LAWS:

TRCB generally solicits credit applications from all segments of its assessment area, including low- and moderate-income geographies. Management has established adequate consumer and commercial loan policies and lending practices that enunciates a commitment by the bank to evaluate and approve loans without regard to any prohibited basis. A review of credit policies did not indicate any evidence of prohibited discriminatory practices, including pre-screening or the discouragement of applicants for the types of credit described in the most recent CRA statement. Additionally, a fair lending assessment was performed as part of the compliance portion of the examination and it was determined that there was no evidence of any discriminatory lending practices by the bank on any prohibited basis.