

# **PUBLIC DISCLOSURE**

November 20, 2006

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**POCONO COMMUNITY BANK  
RSSD ID - 2515441  
STROUDSBURG, 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**

Pocono Community Bank is rated **SATISFACTORY**.

**SUMMARY OF MAJOR FACTORS SUPPORTING RATING**

The factors listed below contributed to rating of "Satisfactory."

- The loan-to-deposit ratio is reasonable, given the bank's size and financial condition as well as the assessment area credit needs.
- A substantial majority of the bank's loans and other lending related activities are in the bank's assessment area.
- The distribution of borrowers, given the demographics of the assessment area, reflects a reasonable penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes.
- The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area.

**DESCRIPTION OF INSTITUTION**

Pocono Community Bank (Pocono) commenced operations in 1997 and is an independent community bank. It offers consumer and commercial banking services through three branches in Monroe County, which is located in the Pocono Mountain Region of Pennsylvania. It focuses primarily on providing personalized banking services to its small business, professional, and retail clients.

All of Pocono's branches are located in the East Stroudsburg Micropolitan Statistical Area, with the main one in in Stroudsburg, PA. Each branch has an automated teller machine (ATM) and participates in the STAR network, one of the largest ATM networks in the nation.

As of September 30, 2006, Pocono reported \$128,461 million in total assets, of which \$101,118 million, or 79%, were loans. The composition of the bank's loan portfolio, as of September 30, 2006, is presented in the following table:

<b>LOANS</b>	<b>\$</b>	<b>%</b>
Construction & Land Development	3,595	3.6
Open-End Loans Secured by Residential Property	1,771	1.8
Closed-End Loans Secured by Residential Property	47,205	46.7
Commercial Mortgages	37,537	37.1
Commercial and Industrial	8,830	8.7
Consumer Installment	355	0.3
Other Loans	1,825	1.8
<b>TOTAL</b>	<b>101,118</b>	<b>100%</b>

Source: Consolidated Report of Condition, Schedule RC-C, for the period ending September 30, 2006

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## **DESCRIPTION OF ASSESSMENT AREAS**

Pocono has designated its assessment area to include all of Monroe County, which is located in northeastern Pennsylvania. Monroe County is located in the East Stroudsburg Micropolitan Statistical Area. According to the 2000 Census data, this assessment area consists of 23 census tracts, 9 (39%) of which are designated as middle-income and 14 (61%) as upper-income. The assessment area has no low- or moderate-income census tracts. The middle-income census tracts are located in the Stroudsburg, East Stroudsburg, and Mount Pocono areas, and in the western part of the county.

Because of changes in population patterns in the assessment area between the 1990 and 2000 Censuses, the Office of Management and Budget (OMB) adjusted the number of census tracts in the assessment area, with Monroe County gaining nine census tracts. As a result, mortgage loans for the entire period were evaluated according to 2000 Census figures with 2004 OMB designations. However, the statistics used to evaluate Pocono's CRA performance remained very similar despite the changes.

For purposes of Community Reinvestment Act (CRA) and this written evaluation, geographies and family income levels are categorized and defined in the following manner.

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

## **ECONOMIC CHARACTERISTICS**

Monroe County is located within commuting distance of both Philadelphia and New York City and is one of the fastest-growing counties in Pennsylvania. Commuters and retirees are attracted to the area because of affordable housing, lower taxes, and rural amenities.

As a result of the current war in Iraq, the region's largest employer is Tobyhanna Army Depot, which is the Army's largest full-service electronics maintenance facility. Other major employers in the county include Wal-Mart Associates, Sanofi Pasteur (pharmaceutical and vaccine producer), the Pocono Mountain School District, Pocono Medical Center, and the East Stroudsburg Area School District. The resort and recreation industry are also crucial to the area.

Monroe County continues to encourage economic development by attracting new industries and bringing new jobs to its residents, with the goal of reducing the number of residents who must commute to work outside the county.

Its unemployment rate of 4.18% is slightly above the state average of 3.9% and equal to the national average of 4.1. As of October 2006, the seasonally unadjusted unemployment rate for the county was 4.1%, which is equal to the national rate but slightly above the state unemployment rate of 3.9%.

<b>Locations</b>	<b>October 2005</b>	<b>October 2006</b>
Monroe County	4.8	4.1
Pennsylvania	4.4	3.9
United States	4.6	4.1

To determine the credit needs of the community, written summaries of interviews of community representatives were reviewed during the course of the evaluation. This information was supplemented with demographic and economic data pertinent to the area. Community representative most frequently mentioned affordable rental units when asked to identify the community's credit needs. They also mentioned the need for banks to fund multi-family housing and to make loans to renovate the county's existing housing stock.

According to the FDIC's Summary of Deposits as of June 30, 2006, Pocono holds slightly more than 5% of the deposit market share in its assessment area. PNC Bank, a large regional bank headquartered in Pittsburgh, PA holds 24%; East Stroudsburg Savings Association, with headquarters in Monroe County, holds 19%; and Citizens Bank, a large regional bank that is a subsidiary of Royal Bank of Scotland Group PLC, holds 14%.

According to 2005 Home Mortgage Disclosure Act (HMDA) data, Countrywide Home Loans originates the most HMDA loans, with 9.8% of the assessment area's market. East Stroudsburg Savings Association ranks second with 4.2%, and Wells Fargo Bank N.A is third with 3.6%.

Specialized mortgage lenders originated the majority of small business loans reported under the 2005 CRA aggregate data for Monroe County. The competition for loans is strong, with 55 lenders reporting 3,884 loans in 2005. Lenders with large market share in 2005 include Citibank USA, N.A. with, 19.8% of the market; Capital One FSB, with 16.7%; MBNA America (which was later acquired by Bank of America), with 11.2%; and PNC Bank NA with 10.3% of the market.

## **HOUSING**

The amount of owner-occupied housing located within designated census tracts is used as a proxy to estimate demand for home mortgage credit within such census tracts. According to the 2000 Census data, the bank's assessment area contains 67,581 housing units, of which 57% are owner-occupied. Single family units comprised 87% of all housing units, while two-to-four family units comprised 6%, mobile homes 4%, and multi-family units 3%. The median age of the housing stock was 19 years, compared to a statewide median of 43 years. Median rent in the assessment area was \$658 with 38% of renters paying more than 30% of their income for housing.

Median rent in all non-MSA Pennsylvania counties was \$421, with 30% of renters paying more than 30% of their income for housing, while the median rent in the entire state of Pennsylvania was \$531,

with 35% of renters paying more than 30% of their income for housing.

According to the 2000 Census, the median home price in Monroe County was almost \$124 thousand. The influx of New York and New Jersey residents has increased dramatically since 2000, especially since the events of September 11, 2001. Because housing costs and the overall cost of living are so much lower in Monroe County than in adjacent areas of New York and New Jersey, the county is very attractive to these new residents. As a result of the demand, home prices in the county have increased so significantly that many middle-income residents, including teachers, police, and firefighters, cannot afford to purchase a home.

In addition, many senior citizens are being forced to sell their homes because they are unable to pay the higher taxes that have been imposed to build schools and infrastructure to accommodate the new residents. Compounding the problem is the lack of suitable affordable housing units. Most of the builders constructing new homes are targeting luxury-home buyers, and much of the existing housing stock consists of vacation home communities that are not equipped with the proper infrastructure to support year-round residents.

### **BORROWER INCOME DATA**

For purposes of evaluating the distribution of loans to borrowers of different income levels, incomes were classified based upon annually adjusted median family income data made available by the U.S. Department of Housing and Urban Development (HUD). According to the 2000 Census, the median family income for Monroe County was \$52,093 compared to \$49,184 for the state and \$41,475 for all non-MSA Pennsylvania counties.

The percentage of low- and moderate-income families is used as a proxy to estimate demand for home mortgage lending in the assessment area. Of the total families in the assessment area, 13% are designated as low-income and 14% are moderate-income. Families living below the poverty level represented 6% of the total families in the assessment area. In all non-MSA Pennsylvania counties and statewide, 8% of families lived below the poverty level.

### **GEOGRAPHIC BUSINESS DATA**

The percentage of businesses located within the assessment area is used as a proxy to estimate demand for business credit within the bank's assessment area. Based on the 2005 Dun and Bradstreet business demographics, there were 4,861 businesses located in the assessment area.

Of these businesses, 90% are small businesses (businesses with gross annual revenues of \$1 million or less). Business data provided for 2005 also revealed that 40% of the assessment area's businesses are located in middle-income census tracts, while the remaining 60% are located in upper-income census tracts.

The following table presents relevant demographic information used to assess the performance context in which Pocono operates.

<b>Exhibit #1 Pocono Community Bank Assessment Area Demographics Monroe County</b>								
<b>Income Categories</b>	<b>Tract Distribution</b>		<b>Families by Tract Income</b>		<b>Families &lt; Poverty Level as % of Families by Tract</b>		<b>Families by Family Income</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0.0	0	0.0	0	0.0	4,624	12.6
Moderate-income	0	0.0	0	0.0	0	0.0	5,241	14.3
Middle-income	9	39.1	12,900	35.2	1,048	8.1	7,287	19.9
Upper-income	14	60.9	23,702	64.8	1,205	5.1	19,450	53.2
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>23</b>	<b>100.0</b>	<b>36,602</b>	<b>100.0</b>	<b>2,253</b>	<b>6.2</b>	<b>36,602</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		<b>#</b>	<b>%</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	27,257	13,030	33.6	47.8	5,056	18.5	9,171	33.6
Upper-income	40,324	25,712	66.4	63.8	5,656	14.0	8,956	22.2
Unknown income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>67,581</b>	<b>38,742</b>	<b>100.0</b>	<b>57.3</b>	<b>10,712</b>	<b>15.9</b>	<b>18,127</b>	<b>26.8</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	1,928	39.7	1,740	40.0	132	35.5	56	40.0
Upper-income	2,933	60.3	2,609	60.0	240	64.5	84	60.0
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>4,861</b>	<b>100.0</b>	<b>4,349</b>	<b>100.0</b>	<b>372</b>	<b>100.0</b>	<b>140</b>	<b>100.0</b>
<b>Percentage of Total Businesses:</b>				<b>89.5</b>	<b>7.7</b>	<b>2.9</b>		

## **SCOPE OF EXAMINATION**

The evaluation of Pocono's CRA performance covered the period from January 2003 through November 2006. The examination included an analysis of the following factors:

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

The loan products evaluated included residential mortgage loans, small business loans, and small business loans secured by residential real estate. Because Pocono's assessment area is not in an MSA, the bank is not required to report home mortgage loans and small business loans.

The analysis of the bank's residential mortgage and commercial lending is based on a statistical sampling of loans since the last examination. A sample of each loan type was reviewed from January 2003 through November 2006. During this period, the bank made 308 residential mortgage loans, 137 commercial loans, and 27 commercial loans secured by residential real estate. The home mortgage sample included 122 loans aggregating \$16.5 million. The commercial loan sample included 78 loans aggregating \$14.7 million and 24 commercial loans secured by residential real estate aggregating \$2.6 million.

The distribution of loans to borrowers of different income levels was based upon annually adjusted median family income data made available by HUD. The most recent year for which median family income data is available is 2006. All other demographic indices and statistics presented throughout this evaluation are based on 2000 U.S. Census figures with 2004 OMB designations.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE**

### **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. This ratio measures 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.

Pocono's loan-to-deposit ratio is reasonable given the bank's size, financial condition, and assessment area credit needs. It has been increasing over the past five years, averaging 81.1% over the past 16 quarters of operation.<sup>1</sup> It has consistently outperformed the peer group average ratio (73.1%) by a significant margin. The table on the following page shows Pocono's quarterly loan-to-deposit ratios for the 16 quarters since the bank's previous examination, along with the average loan-to-deposit ratio for the same period.

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<sup>1</sup> Pocono's loan-to-deposit ratio briefly decreased for 2 quarters in 2005 because the bank sold loans in the secondary market in 2004.

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<b>POCONO COMMUNITY BANK HISTORICAL LOAN-TO-DEPOSIT RATIOS</b>			
<b>AS OF DATE</b>	<b>NET LOANS (THOUSANDS)</b>	<b>TOTAL DEPOSITS (THOUSANDS)</b>	<b>RATIO</b>
09/30/06	99,761	110,264	90.5
06/30/06	98,453	111,515	88.3
03/31/06	95,620	107,098	89.3
12/31/05	92,971	108,383	85.8
09/30/05	91,007	116,293	78.3
06/30/05	88,221	108,489	81.3
03/31/05	85,895	101,030	85.0
12/31/04	81,881	103,228	79.3
09/30/04	78,286	105,028	74.5
06/30/04	76,351	105,267	72.5
03/31/04	71,730	101,103	70.9
12/31/03	82,827	102,380	80.9
09/30/03	79,108	102,766	76.9
06/30/03	78,786	96,920	81.3
03//31/03	77,306	92,946	83.2
12/31/02	71,832	90,189	79.6
<b>Quarterly Loan-to-Deposit Ratio Average Since Previous Evaluation</b>			<b>81.1%</b>

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

## **LENDING IN ASSESSMENT AREAS**

The bank's loans were analyzed to determine the volume of loans extended inside and outside of the bank's assessment area. The analysis, which was based on a sample of home mortgage loans, commercial loans, and commercial loans secured by residential real estate originated since the last examination (January 2003 through November 2006), revealed that a substantial majority of Pocono's loans and other lending related activities were inside the assessment area. For home mortgage loans, 89% of originations and 88% of total dollars extended in the sample period were within the bank's assessment area. For small business related loans, 95% of originations and 95% of total dollars were within the bank's assessment area.

The table on the following page depicts the volume of loans extended inside and outside of the bank's assessment area.

<b>Exhibit #2 Pocono Community Bank Lending Inside and Outside the Assessment Area</b>								
	<b>Inside</b>				<b>Outside</b>			
	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$(000s)</b>	<b>%</b>
Home Improvement	34	85.0	\$1,495	57.2	6	15.	\$1,121	42.8
Home Purchase – All	5	100.0	\$856	100.0	0	0.0	\$0	0.0
Home Purchase - Conventional	32	84.2	\$5,406	87.9	6	15.	\$743	12.1
Refinancing	37	94.9	\$6,769	97.5	2	5.1	\$172	2.5
<b>Total HMDA Loans</b>	<b>108</b>	<b>88.5</b>	<b>\$14,527</b>	<b>87.7</b>	<b>14</b>	<b>11.</b>	<b>\$2,036</b>	<b>12.3</b>
Small Business – Secured by Real Estate	22	91.7	\$2,249	84.5	2	8.3	\$414	15.5
Small Business	74	94.9	\$13,867	94.2	4	5.1	\$846	5.8
<b>Total Small Business Loans</b>	<b>96</b>	<b>94.1</b>	<b>\$16,115</b>	<b>92.7</b>	<b>6</b>	<b>5.9</b>	<b>\$1,260</b>	<b>7.3</b>
<b>TOTAL LOANS</b>	<b>204</b>	<b>91.1</b>	<b>\$30,643</b>	<b>90.3</b>	<b>20</b>	<b>8.9</b>	<b>\$3,296</b>	<b>9.7</b>

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

Home mortgage and small business lending data were reviewed along with the demographic and economic characteristics of the assessment area to determine the extent of lending to borrowers of different incomes and to businesses of different sizes.

**Lending to Borrowers of Different Income Levels**

For purposes of evaluating the distribution of loans to borrowers of different income levels, incomes are classified based upon annually adjusted median family income data made available by HUD. The adjusted annual median family incomes for Monroe County for 2006, 2005 and 2004 are \$50,600, \$48,350 and \$48,200, respectively. The table on the following page categorizes the dollar amounts recognized as low-, moderate-, middle- and upper-income, predicated upon adjusted median family income measures.

<b>Year</b>	<b>HUD Adjusted Median Family Income</b>	<b>Low Income (&lt;50%)</b>	<b>Moderate Income (50%-less than 80%)</b>	<b>Middle Income (80%-less than 120%)</b>	<b>Upper Income (120% or Greater)</b>
2006	\$50,600	Less than \$25,300	\$25,300--\$40,479	\$40,480--\$60,719	\$60,720 or more
2005	\$48,350	Less than \$24,175	\$24,175--\$38,679	\$38,680--\$58,019	\$58,020 or more
2004	\$48,200	Less than \$23,100	\$23,100--\$24,099	\$24,100--\$38,559	\$38,560 or more

The percentage of low- and moderate-income families in the assessment area is used as a proxy to estimate demand for home mortgage lending in the assessment area.

An analysis of home mortgage lending shows that the bank originated 108 loans in the assessment area, 5% of which were to low-income borrowers, relative to the 13% of families in the assessment area who are considered low-income. In addition, 9% percent of loans were made to moderate-income borrowers, relative to the 14% of families in the assessment area who are considered moderate-income.

Pocono’s distribution of home mortgage loans among borrowers of different income levels, including low- and moderate-income borrowers, is considered reasonable given the demographic context. In the assessment area, 38% of renters pay more than 30% of their income for housing, which is similar to Pennsylvania as a whole where 35% of renters pay more than 30% of their income for housing. This makes it difficult for these families to save the money necessary to purchase a home. Additionally, housing and rental units that are affordable to low- and moderate-income residents are very scarce. Together these factors present significant barriers to homeownership for low- and moderate-income borrowers.

An analysis of the bank's mortgage lending revealed the following borrower income distribution for the bank’s loans within its assessment area.

<b>POCONO COMMUNITY BANK ASSESSMENT AREA BORROWER INCOME DISTRIBUTION RESIDENTIAL MORTGAGE LENDING JANUARY 2003 THROUGH NOVEMBER 2006</b>					
<b>Geography</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>	<b>Number of Families</b>	<b>Percent of Families</b>	<b>Percentage of Loans / Percentage of Families</b>
<b>Low</b>	5	5	4,624	13	0.38
<b>Moderate</b>	10	9	5,241	14	0.64
<b>Middle</b>	13	12	7,287	20	0.60
<b>Upper</b>	65	60	19,450	53	1.13
<b>Borrower income unknown</b>	15	14	0	0	0
<b>All borrowers</b>	108	100%	36,602	100%	1.00

Pocono’s home mortgage lending was also compared to all lenders operating in the bank’s assessment area. Based on 2005 aggregate HMDA data, 2% of all home mortgage loans made in the assessment area were made to low-income borrowers, relative to the 13% of all families who are considered low-income.

Further, 7% of all home mortgage loans made in the assessment area were made to moderate-income borrowers, relative to the 14% of families who are considered moderate-income. This comparison highlights the difficulty area financial institutions have in lending to low- and moderate-income borrowers, particularly low-income borrowers, largely due to the rising cost of housing in Monroe County.

The table on the following page shows the distribution of Pocono’s lending by the income level of the borrower, compared to the market distribution in 2005.

<b>POCONO COMMUNITY BANK ASSESSMENT AREA AGGREGATE COMPARISON OF THE DISTRIBUTION OF MORTGAGE LENDING BY BORROWER INCOME LEVEL PERCENT OF LOANS ORIGINATED</b>		
<b>Type of Borrower</b>	<b>Pocono</b>	<b>Aggregate 2005</b>
<b>Low-income</b>	5	2
<b>Moderate-income</b>	9	7
<b>Middle-income</b>	12	21
<b>Upper-income</b>	60	54
<b>Borrower income unknown</b>	14	16
<b>All geographies</b>	100%	100%

**Lending to Businesses of Different Sizes**

The distribution of loans to small businesses is consistent with the bank's asset size, lending capacity, and business objectives, and reflects an excellent penetration among businesses 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. Since Pocono does not report small business loans for purposes of CRA, the analysis is based on a statistical sampling of the bank's commercial loans.

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, 2006, indicates that 93% of the bank's commercial loans were designated as small business loans, as detailed in the chart on the following page.

<b>POCONO COMMUNITY BANK COMMERCIAL LOAN PORTFOLIO</b>		
	<b>AMOUNT OUTSTANDING AS OF 06/30/06 (\$000)</b>	<b>PERCENT</b>
<b>Loans with original amounts of \$100,000 or less</b>	11,913	27
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	8,746	20
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	20,443	46
<b>Total Small Business Loans</b>	41,102	93
<b>Loans with original amounts of greater than \$1,000,000</b>	3,124	7

<b>POCONO COMMUNITY BANK COMMERCIAL LOAN PORTFOLIO</b>		
<b>Total commercial loans</b>	44,226	100%

A review of a sample of the bank's commercial loans originated between January 2003 and November 2006 revealed that 53% were extended in an amount of \$100 thousand or less. Pocono's lending activity demonstrates it is adequately meeting the credit needs of smaller businesses. These numbers are shown in the following table.

<b>POCONO COMMUNITY BANK ASSESSMENT AREA SMALL BUSINESS LOAN SAMPLE JANUARY 2003 THROUGH NOVEMBER 2006</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000</b>	<b>Percent</b>
<b>Loans with original amounts of \$100,000 or less</b>	39	53	1,801	10
<b>Loans with original amounts of more than \$100,000 through \$250,000</b>	19	26	3,166	16
<b>Loans with original amounts of more than \$250,000 through \$1,000,000</b>	16	21	8,900	46
<b>Total small business loans</b>	74	100%	13,867	100%

The next table quantifies 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 from Dun & Bradstreet revealed 4,861 businesses in the bank's assessment area in 2005, of which 89% had sales of less than \$1 million.

<b>POCONO COMMUNITY BANK ASSESSMENT AREA SMALL BUSINESS LOAN SAMPLE BUSINESS REVENUES JANUARY 2003 THROUGH NOVEMBER 2006</b>				
	<b>Number</b>	<b>Percent</b>	<b>\$000's</b>	<b>Percent</b>
<b>Loans to businesses with revenues of \$1 million or less</b>	54	83	11,558	90
<b>Loans to businesses with revenues of more than \$1 Million</b>	11	17	1,226	10
<b>Total small business loans</b>	65 <sup>2</sup>	100%	\$12,764	100%

Further, of the 65 loans in the total sample, 83% were originated to businesses with gross annual revenues of \$1 million or less. Aggregate 2005 CRA small business data indicates that only 48% of the loans in the assessment area were made to businesses with less than \$1 million in revenue. (Pocono is not included in the aggregate data since the bank is not a CRA small business reporter.)

<sup>2</sup> Business revenue was not available for nine commercial loans originated during the sample period.

In addition, of the 54 loans originated to businesses with gross annual revenues of \$1 million or less, 39 (50%) were extended in amounts less than \$100 thousand.

Pocono also originated small business loans secured by residential real estate, which aggregated \$2.2 million. Of the 22 loans sampled, 18 (82%) were originated to businesses with gross annual revenues of \$1 million or less, and 12 loans (54%) were extended in amounts of \$100 thousand or less.

## **GEOGRAPHIC DISTRIBUTION OF LENDING**

### **Home Mortgage Lending**

The geographic distribution of the bank's loans was analyzed to measure the lending performance in low-, moderate-, middle-, and upper-income geographies. The main focus of this analysis is the dispersion of loans among low- and moderate-income geographies. Pocono's assessment area does not include low- or moderate-income census tracts; therefore, the geographic distribution of the bank's lending performance will only reflect the lending performance for middle- and upper-income census tracts.

The percentage of owner-occupied units is used as a proxy to estimate demand for residential mortgage lending. Pocono's geographic distribution of mortgage lending is considered reasonable. An analysis of a sample of 108 home mortgage loans originated in the assessment area revealed that 23% were in middle-income census tracts, while 34% of owner-occupied housing units are located in middle-income census tracts. In addition, 77% percent of loans were made in upper-income census tracts, relative to the 66% of owner-occupied housing units in the assessment area located in upper-income census tracts.

Home mortgage lending was also compared to all lenders operating in the bank's assessment area. Based on 2005 aggregate HMDA data, 42% of all home mortgage loans made in the assessment area were made in middle-income census tracts, relative to the 34% of owner-occupied housing units in middle-income census tracts. Further, 58% of all home mortgage loans were made in upper-income census tracts, relative to the 66% of owner-occupied housing units in upper-income census tracts. Pocono, which made 23% of its home mortgage loans in middle-income tracts, and 77% in upper-income tract, underperformed the market in middle-income tracts and outperformed it in upper-income tracts.

### **Small Business Lending**

The number of small businesses in the assessment area is used as a proxy to estimate the demand for small business lending. Pocono's geographic distribution of lending to small businesses is considered reasonable. The analysis of small business lending shows that the bank originated 74 small business loans in its assessment area during the period reviewed. Of those loans, 43% were located in middle-income census tracts, relative to the 40% of businesses located in these tracts. In addition, 57% percent of small business loans were made in upper-income census tracts, relative to the 60% of businesses located in upper-income census tracts.

Pocono's small business lending was also compared to all lenders operating in the assessment area.

Based on 2005 aggregate CRA data, 33% of all small business loans made in the assessment area were made in middle-income census tracts, relative to the 40% of small businesses located in these tracts.

Further, 53% of all small business loans made in the assessment area were made to upper-income census tracts, relative to the 60% of businesses located in upper-income census tracts. Pocono, which made 43% of its small business loans in middle-income tracts, and 57% of its small business loans in upper income tracts, outperformed the market in both middle-income and upper-income tracts.

### **RESPONSE TO SUBSTANTIATED COMPLAINTS**

No CRA-related complaints were filed with either Pocono or the Federal Reserve Bank of Philadelphia during the evaluation period.

### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES**

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), the Fair Housing Act, or any relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

**CRA APPENDICES**



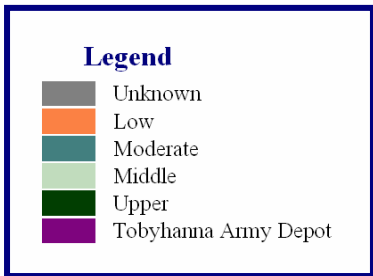
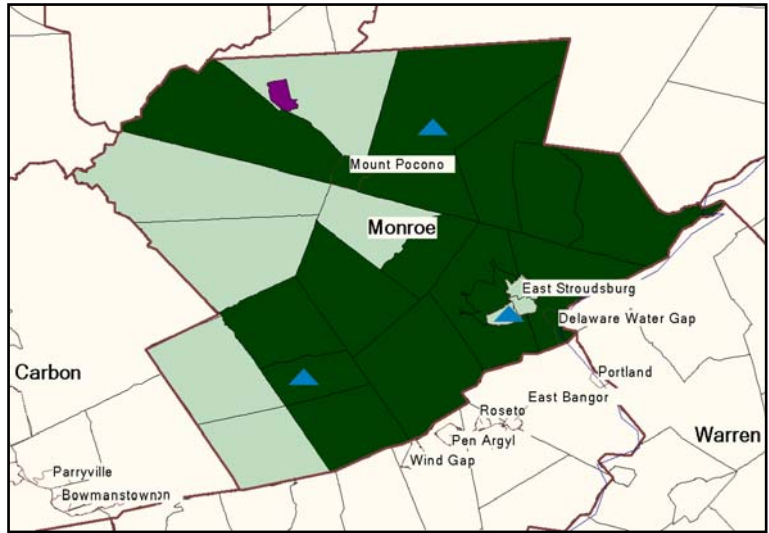
**LOAN DISTRIBUTION TABLES - 2003**

Income Categories	HOME MORTGAGE LENDING							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Low	0	0.0%	0	0.0%	1	2.2%	130	2.0%
Moderate	0	0.0%	0	0.0%	1	2.2%	125	1.8%
Middle	13	28.9%	1,737	26.2%	9	20.0%	867	13.1%
Upper	32	71.1%	4,884	73.8%	30	66.7%	4,846	73.2%
Unknown	0	0.0%	0	0.0%	4	8.9%	653	9.9%
<b>Total</b>	<b>45</b>	<b>100.0%</b>	<b>6,621</b>	<b>100.0%</b>	<b>45</b>	<b>100.0%</b>	<b>6,621</b>	<b>100.0%</b>
	SMALL BUSINESS				SMALL BUSINESS SECURED BY RESIDENTIAL REAL ESTATE			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	By Tract Income							
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Middle	9	40.9%	1,941	42.7%	3	42.9%	205	39.9%
Upper	13	59.1%	2,602	57.3%	4	57.1%	309	60.1%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>22</b>	<b>100.0%</b>	<b>4,542</b>	<b>100.0%</b>	<b>7</b>	<b>100.0%</b>	<b>514</b>	<b>100.0%</b>
	By Revenue							
Total \$1 Million or Less	16	72.7%	3,897	85.8%	4	57.1%	215	41.8%
Over \$1 Million	2	9.1%	185	4.1%	1	14.3%	15	2.9%
Not Known	4	18.2%	460	10.1%	2	28.6%	284	55.3%
<b>Total</b>	<b>22</b>	<b>100.0%</b>	<b>4,542</b>	<b>100.0%</b>	<b>7</b>	<b>100.0%</b>	<b>514</b>	<b>100.0%</b>
	By Loan Size							
\$100,000 or less	11	50.0%	407	9.0%	4	57.1%	115	22.4%
\$100,001 - \$250,000	7	31.8%	1,185	26.1%	3	42.9%	399	77.6%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	4	18.2%	2,950	64.9%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>22</b>	<b>100.0%</b>	<b>4,542</b>	<b>100.0%</b>	<b>7</b>	<b>100.0%</b>	<b>514</b>	<b>100.0%</b>
	By Loan Size and Revenue \$1 Million or Less							
\$100,000 or less	9	56.2%	377	9.7%	3	75.0%	100	46.5%
\$100,001 - \$250,000	3	18.8%	570	14.6%	1	25.0%	115	53.5%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	4	25.0%	2,950	75.7%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>16</b>	<b>100.0%</b>	<b>3,897</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>	<b>215</b>	<b>100.0%</b>

**LOAN DISTRIBUTION TABLE - 2004 through 2006**

Income Categories	HOME MORTGAGE LENDING							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Low	0	0.0%	0	0.0%	4	6.3%	180	2.2%
Moderate	0	0.0%	0	0.0%	9	14.3%	584	7.4%
Middle	12	19.0%	1,334	16.9%	4	6.3%	424	5.4%
Upper	51	81.0%	6,573	83.1%	35	55.6%	5,013	63.4%
Unknown	0	0.0%	0	0.0%	11	17.5%	1,707	21.6%
<b>Total</b>	<b>63</b>	<b>100.0%</b>	<b>7,907</b>	<b>100.0%</b>	<b>63</b>	<b>100.0%</b>	<b>7,907</b>	<b>100.0%</b>
	SMALL BUSINESS				SMALL BUSINESS SECURED BY RESIDENTIAL REAL ESTATE			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	By Tract Income							
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Middle	23	44.2%	4,837	51.9%	5	33.3%	943	54.4%
Upper	29	55.8%	4,487	48.1%	10	66.7%	792	45.6%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>52</b>	<b>100.0%</b>	<b>9,324</b>	<b>100.0%</b>	<b>15</b>	<b>100.0%</b>	<b>1,735</b>	<b>100.0%</b>
	By Revenue							
Total \$1 Million or Less	38	73.1%	7,661	82.1%	14	93.3%	1,635	94.2%
Over \$1 Million	9	17.3%	1,041	11.2%	0	0.0%	0	0.0%
Not Known	5	9.6%	623	6.7%	1	6.7%	100	5.8%
<b>Total</b>	<b>52</b>	<b>100.0%</b>	<b>9,324</b>	<b>100.0%</b>	<b>15</b>	<b>100.0%</b>	<b>1,735</b>	<b>100.0%</b>
	By Loan Size							
\$100,000 or less	28	53.8%	1,394	14.9%	8	53.3%	522	30.1%
\$100,001 - \$250,000	12	23.1%	1,981	21.3%	6	40.0%	913	52.6%
\$250,001 - \$1 Million (Bus)- \$500k (Farm)	12	23.1%	5,950	63.8%	1	6.7%	300	17.3%
Over \$1 Million (Bus)- \$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>52</b>	<b>100.0%</b>	<b>9,325</b>	<b>100.0%</b>	<b>15</b>	<b>100.0%</b>	<b>1,735</b>	<b>100.0%</b>
	By Loan Size and Revenue \$1 Million or Less							
\$100,000 or less	20	52.6%	934	12.2%	7	50.0%	422	25.8%
\$100,001 - \$250,000	8	21.1%	1,400	18.3%	6	42.9%	913	55.8%
\$250,001 - \$1 Million (Bus)- \$500k (Farm)	10	26.3%	5,325	69.5%	1	7.1%	300	18.4%
Over \$1 Million (Bus)- \$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>38</b>	<b>100.0%</b>	<b>7,659</b>	<b>100.0%</b>	<b>14</b>	<b>100.0%</b>	<b>1,635</b>	<b>100.0%</b>

CRA APPENDIX C: ASSESSMENT AREA MAP<sup>3</sup>



<sup>3</sup> Pocono's assessment area consists of Monroe County in its entirety.