

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 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 COMMONWEALTH STATE BANK prepared by the Federal Reserve Bank of Philadelphia, the institution's supervisory agency, as of July 8, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: Satisfactory

COMMUNITY REINVESTMENT ACT ASSESSMENT

The Community Reinvestment Act (CRA) of 1977 (U.S.C.2901), as implemented by Regulation BB, encourages each insured depository institution covered by the Act to help meet the credit needs of the communities in which it operates. The Act also requires that each federal financial supervisory agency assess the record of each covered depository institution in helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound banking practices.

Pursuant to April 1995 revisions to Regulation BB, a financial institution's CRA performance is assessed under one of four alternative performance standards: (1) a small bank performance standard (2) lending, investment, and service tests applicable to large, retail banks (3) a community development test applicable to wholesale or limited purpose banks; or (4) a strategic plan option.

Accordingly, Commonwealth State Bank's performance was measured under the small institution performance criteria. The established assessment method for small institutions contains the following five performance criteria:

- ! A bank's loan-to-deposit ratio given bank size, financial condition, and credit needs of assessment area (formerly called service area), adjusted for seasonal variation, and other lending related activities, such as loan origination for sale in the secondary market;
- ! The percentage of loans the bank makes in its assessment areas;
- ! The bank's record of lending to borrowers of different income levels and to businesses of different sizes;
- ! The geographic distribution of the bank's loans; and
- ! The bank's record of responding to written complaints about its CRA performance.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

The following table indicates the performance level of **COMMONWEALTH STATE BANK** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>COMMONWEALTH STATE BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans		X	
Response to Complaints	NO COMPLAINTS WERE RECEIVED SINCE THE PRIOR EXAMINATION		

DESCRIPTION OF COMMONWEALTH STATE BANK

The administrative headquarters and main office of Commonwealth State Bank (CSB) is located in Newtown Township, Pennsylvania. The main office maintains regular business hours Monday through Thursday from 8:30 a.m. to 4:00 p.m., Friday 8:30 a.m. to 6:00 p.m., and Saturday 9:00 a.m. to 12:00 p.m. The bank also operates a branch office located in Yardley, Pennsylvania. That office is open Monday through Thursday from 10:00 a.m. to 6:00 p.m., Friday 10:00 a.m. to 7:00 p.m., and Saturday 10:00 a.m. to 1:00 p.m. CSB is a member of the Money Access Center (MAC) automated teller machine (ATM) network and operates one ATM at its Yardley office.

Management indicates that the bank's primary business focus is to serve the banking needs of professionals and small- and medium-size businesses located in that portion of Bucks County known, locally, as Lower Bucks County.

The Uniform Consolidated Statement of Condition and Income as of March 31, 1996 revealed total assets of \$132.4 million, \$70.7 million or 53%, of which, were loans. The bank's loan mix essentially reflects a wholesale orientation, with commercial mortgages; commercial & industrial loans; and loans secured by residential real estate, extended for commercial purposes; representing most of the total loan portfolio. Consumer retail credit (including installment loans and open-end home equity credit) accounted for less than 7% of total loans outstanding at March 31, 1996. A more detailed exhibit of CSB's actual lending profile is presented quantitatively in the table below.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

DESCRIPTION OF COMMONWEALTH STATE BANK (continued)

LOAN TYPE	3/31/96	%	12/31/95	%	12/31/94	%
Commercial & Multi-Family Real Estate Loans	34,487	47.8	33,223	47.5	27,313	48.1
Residential Real Estate Loans	24,816	34.4	23,707	34.0	16,101	28.4
Commercial & Industrial Loans	5,618	7.8	5,387	7.7	4,711	8.3
Consumer I/L Loans	3,036	4.2	2,888	4.1	2,126	3.7
Open-end Home Equity Credit	1,915	2.7	2,019	2.9	1,835	3.2
Real Estate Construct. Loans	1,387	1.9	1,805	2.6	3,395	6.0
Secured by Farmland	421	0.6	425	0.6	433	0.8
All other Loans	402	.6	429	.6	825	1.5
Total	\$72,082	100.0%	\$69,883	100.0%	\$56,739	100.0%

Notwithstanding its wholesale orientation, CSB offers home mortgage credit through a third-party mortgage originator. Under this arrangement, the bank originates and funds home mortgage loans with the understanding that they will be sold into the secondary mortgage market in the near term. The arrangement enables CSB to offer competitively priced, long-term, fixed-rate residential mortgage credit to meet home purchase and home refinance needs.

The bank also offers home mortgage loans that do not conform to secondary market underwriting criteria. Such loans are available with either adjustable or fixed rates of interest, have maximum terms of 15 years, and provide for flexible debt-to-income and loan to value ratios. Additionally, CSB offers home mortgage loans to self-employed individuals, without the formal requirement of three years of sustained net income, provided an applicant can demonstrate other sources of stable income.

DESCRIPTION OF ASSESSMENT AREA

Management delineated CSB's assessment area based upon the bank's effective lending territory, in conjunction with existing geographic and natural boundaries. A specific description of the assessment area is as follows:

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA (continued)

Using CSB's Newtown office as a central point, the assessment area extends six miles northeast to the Delaware River, 10 miles southeast to the Delaware River, seven miles south to the Pennsylvania Turnpike, seven miles southwest to Street Road in Feasterville, nine miles west to York Road in Warminster Township and 10 miles northwest to York Road in Buckingham Township.

The assessment area, which contains retail, commercial, industrial, and agricultural segments, encompasses several relatively affluent geographies. Moreover, steady increases in local population and real estate development over the past several years created a highly competitive financial services market that contains several large financial institutions. Area competition continues to intensify as smaller financial entities continue to be acquired by larger regional and super-regional entities.

The assessment area is located within Bucks County and is comprised of 58 census tracts or geographies. Two or 4% of the tracts are designated as low- to moderate-income, based upon 1990 U.S. Census data. Both tracts are located in southeastern Bucks County; one, a moderate-income tract, in Falls Township, and the other, a low-income tract, in Tullytown Township. Fifty-one percent of the tracts within the assessment area are middle-income, while 45% are upper-income. Management periodically reviews the adequacy of its assessment area to ensure that it remains reasonable.

Based upon 1995 HMDA Analysis Reports, the population of the assessment area is comprised as follows:

	Number	Percent
Market Population	280,629	100.0%
L/M Market Population	656	0.2%
Minority Population	16,273	5.8%
L/M, Minority Population	60	Less than 0.1%

(L/M designates low- to moderate-income)

The population of Bucks County is 541,174, based on 1990 U.S. Census data. The minority population within the county is comprised as follows: 2.8 % Black, 1.6% Hispanic, 0.1% American Indian, and 1.6% Asian/Pacific Islander. The county's median household income is \$43,347 compared to median incomes of \$29,069 and \$35,406 for the entire state of Pennsylvania and the Philadelphia MSA, respectively. There are 199,934 occupied housing units in Bucks County, 190,507, of which, are owner-occupied. The median value of such units is \$140,000, compared to median values of \$69,700 and \$100,400 for Pennsylvania and the Philadelphia MSA, respectively.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LOAN TO DEPOSIT RATIO

As already noted, CSB exhibits a wholesale lending profile, with most of its loans extended to small- and medium-size businesses. The March 31, 1996 Uniform Bank Performance Report (UBPR) indicates that the bank maintained a loan-to-deposit ratio of 67.0% (peer 64.0%) at March 31, 1996. The UBPR additionally indicates that, at December 31, 1995 and December 31, 1994, CSB's loan-to-deposit ratio was 64.5% and 59.1%, respectively.

The table below depicts the institution's quarterly loan-to-deposit ratios since the previous examination. It also illustrates the quarterly loan-to-deposit ratio average since the previous examination. 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.

As of	Net Loans	Deposits	Ratio
3/31/95	\$58,589	\$94,610	61.9%
6/30/95	\$61,719	\$98,757	62.5%
9/30/95	\$66,972	\$108,046	62.0%
12/31/95	\$68,613	\$106,318	64.5%
3/31/96	\$70,706	\$105,507	67.0%
Quarterly Loan to Deposit Ratio Average Since Previous Examination			63.6%

Additionally, CSB's loan-to-deposit ratios and growth rates over the past four years are presented below. The data indicates that the bank experienced steady growth during this period, while maintaining an increasing level of loans relative to deposits.

	12/31/95	12/31/94	12/31/93	12/31/92
Loan to Deposit	64.5%	59.1%	57.3%	55.2%
Asset Growth	13.2%	15.5%	20.9%	46.8%
Net Loan Growth	23.9%	23.8%	19.6%	14.9%

Overall, CSB's average loan-to-deposit ratio is deemed reasonable, based upon the institution's size and nature and the demographic, economic, and competitive factors present within its assessment area.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LOAN TO DEPOSIT RATIO (continued)

Within the general context of CSB's lending activities between examinations, the bank originated and funded three loans through the Federal Home Loan Bank of Pittsburgh's Community Investment Program (CIP). Under the program, financial institutions may obtain low cost funding to finance eligible community development projects. CIP funds are available on a non-competitive basis for housing needs or broader economic and community development initiatives regarding low- to moderate-income individuals or geographies. Details of the three loans are provided below. (Note: two of the loans involve community development initiatives located in geographies outside of the bank's assessment area)

! The loan that was originated within the bank's assessment area, was coordinated through the Bucks County Housing Development Corporation (BCHDC), a non-profit entity that provides affordable housing to low- to moderate-income individuals. The loan was extended as a \$132,000 commercial mortgage to purchase a five bedroom residence located in Fairless Hills, Pennsylvania. This credit facility was also conditioned upon a \$339,000 financial grant from the U.S. Department of Housing and Urban Development (HUD) to fund renovations and furnishings within the residence. The residence is to be used as transitional housing, in which daily living skills and training are provided to eight "moderate-care" psychiatrically disabled individuals.

! A \$135,000 commercial mortgage loan was extended for renovations to a church facility located in a low- to moderate-income geography within the Olney section of the city of Philadelphia.

! A \$700,000 commercial mortgage was extended to a limited partnership that manages a 52 unit apartment complex located within the Oak Lane section of the city of Philadelphia. Although the complex is located in a middle-income geography, apartment renters must qualify as low- to moderate-income individuals. The credit facility was extended to refinance an existing mortgage of \$600,000 and provide for \$100,000 in renovations.

Additionally, although CSB has had limited participation in governmentally-insured, subsidized, or guaranteed loan programs, such as those administered by the U.S. Small Business Administration (SBA), the U.S. Fair Housing Association (FHA), or the U.S. Veterans Administration (VA), it originated one loan in an amount of \$235,000 under an SBA Guaranteed Loan Program during the period between examinations.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LOAN TO DEPOSIT RATIO (continued)

Management indicated that, in many instances when CSB considered using government related financing, it determined that the bank could structure loans on terms and conditions more acceptable to its customers without utilizing a government sponsored program. Management indicated that, when appropriate, it expects to utilize government insured and publicly sponsored programs.

LENDING IN ASSESSMENT AREA

Consistent with its wholesale nature, the majority of CSB's loan originations between examinations were commercial loans; while its volume of consumer loan originations (i.e installment credit, home mortgages, and personal lines of credit) was relatively limited. Accordingly, a sample was drawn from all commercial loans originated during the first six months of 1996 to assess the bank's lending presence within its assessment area. Supplementally, a consumer loan sample, drawn from a period covering March 1995 through June 1996, was also utilized for the same purpose. The following table presents the distribution of originations inside and outside of the bank's assessment areas, based on such sampling.

Loans Inside and Outside of Assessment Area										
	Installment Loans		Mortgage Loans		Lines of Credit		Commercial Loans		Total Loans	
	#	%	#	%	#	%	#	%	#	%
Inside	59	79%	18	67%	18	95%	35	53%	130	70%
Outside	15	20%	9	33%	1	5%	31	47%	56	30%
Unknown	1	1%	0	0%	0	0%	0	0%	1	0%
Total	75	100%	27	100%	19	100%	66	100%	187	100%

(Unknown denotes census tracts which could not be identified)

The distribution indicates that a majority of CSB's loans were made within its assessment area. Given the foregoing percentages, the bank's lending presence within its assessment area is deemed to meet the standards for satisfactory performance, for purposes of CRA, given its asset-size, financial condition, business objectives, and response to identified credit needs within its delineated community.

GEOGRAPHIC DISTRIBUTION OF LOANS

The following table presents the geographic distribution of CSB's loan originations within low-, moderate-, middle- and upper-income geographies within its assessment area. The distribution is also based on the aforementioned loan samples.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Geographic Distribution of Loans By Product Type										
	Installment Loans		Mortgage Loans		Lines of Credit		Commercial Loans		Total Loans	
	#	%	#	%	#	%	#	%	#	%
Low	0	0%	0	0%	0	0	5	8%	5	3%
Moderate	3	4%	0	0%	0	0	0	0%	3	2%
Middle	21	28%	4	15%	3	16%	25	38%	53	28%
Upper	42	56%	20	74%	14	74%	24	36%	100	53%
Unknown	9	12%	3	11%	2	10%	12	18%	26	14%
Total	75	100%	27	100%	19	100%	66	100%	187	100%

(Unknown denotes census tracts which could not be identified)

The foregoing distribution is deemed reflective of the demographic characteristics of CSB's assessment area. Moreover, the distribution reflects a reasonable lending presence throughout the bank's assessment area, including low- and moderate-income geographies.

LENDING TO BORROWERS OF DIFFERENT INCOMES

Generally, a low- or moderate-income designation refers to income that is less than 80% of the median family income of an MSA. The Philadelphia MSA median family income is \$41,908, based on 1990 U.S. Census data. Thus, families residing within the nine-county MSA with annual incomes of less than 80% of the median MSA income (\$33,526), are considered low- to moderate-income. In particular, borrower incomes, categorized by demographic group, are detailed as follows.

Low Income Less than 50% of the Median MSA Income - **Less than \$20,954**

Moderate Income 50% to 80% of the Median MSA Income - **Between \$20,954 and \$33,526**

Middle Income 80% to 120% of the Median MSA Income - **Between \$33,526 and \$50,289**

Upper Income Greater than 120% of the Median MSA Income - **Greater than \$50,289**

Using the same sampling techniques as noted under Lending in Assessment Area and Geographic Distribution of Loans, a distribution of CSB borrowers, based on their income levels is presented below.

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Borrower Income Distribution								
	Installment Loans		Mortgage Loans		Lines of Credit		Total Loans	
	#	%	#	%	#	%	#	%
Low	11	15%	1	4%	0	0%	12	10%
Moderate	2	3%	0	0%	2	11%	4	3%
Middle	20	27%	3	11%	1	5%	24	20%
Upper	38	50%	22	81%	16	84%	76	63%
Unknown	4	5%	1	4%	0	0%	5	4%
Total	75	100%	27	100%	19	100%	121	100%

Overall, the distribution indicates that 13% of the borrowers sampled are designated as low- to moderate-income. Since the median family income for the bank's assessment area (\$52,214) is significantly above that of the entire MSA, it was decided to also present an income distribution based on that median amount. Accordingly, borrower incomes are categorized as follows:

Low Income Less than 50% of the Median Assessment Area Income - **Less than \$26,107**

Moderate Income 50% to 80% of the Median Assessment Area Income - **Between \$26,107 and \$41,771**

Middle Income 80% to 120% of the Median Assessment Area Income - **Between \$41,771 and \$62,657**

Upper Income Greater than 120% of the Median Assessment Area Income - **Greater than \$62,657**

Correspondingly, the following income distribution is presented.

Borrower Income Distribution								
	Installment Loans		Mortgage Loans		Lines of Credit		Total Loans	
	#	%	#	%	#	%	#	%
Low	12	16%	1	4%	2	11%	15	13%
Moderate	11	15%	0	0%	0	0%	11	9%
Middle	21	28%	5	18%	3	16%	29	24%
Upper	27	36%	20	74%	14	73%	61	50%
Unknown	4	5%	1	4%	0	0%	5	4%
Total	75	100%	27	100%	19	100%	121	100%

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES (continued)

Based on 1990 U.S. Census data, 22% of the families located in CSB's assessment area have incomes of less than 80% of the median income of the assessment area (i.e. categorized as low- to moderate-income based on that median). Twenty five percent are categorized as middle-income, while 53% are categorized as upper-income. Given such demographics, the bank's volume of loan originations to low- and moderate-income borrowers is deemed reasonable.

LENDING TO 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 Report of Condition and Income.

Schedule RC-C Part II (Loans to Small Businesses and Small Farms) of CSB's Consolidated Reports of Condition and Income as of June 30, 1995 indicates that 97% of the combined outstandings of commercial and industrial and commercial mortgage loans were classified as small business loans and are detailed below.

Loans to Small Business Consolidated Reports of Condition and Income as of 6/30/95 Schedule RC-C Part II Loans Secured by Nonfarm Nonresidential Properties				
	Number of Loans	Percent	Amount Outstanding at 6/30/95	Percent
With original amounts of \$100,000 or less	50	38.8%	\$1,906,000	7.2%
With original amounts of more than \$100,000 through \$250,000	45	34.9%	\$8,227,000	31.1%
With original amounts of more than \$250,000 through \$1,000,000	34	26.3%	\$16,304,000	61.7%
TOTAL	129	100%	\$26,437,000	100%

Loans to Small Business Consolidated Reports of Condition and Income as of 6/30/95 Schedule RC-C Part II Commercial and Industrial Loans				
	Number of Loans	Percent	Amount Outstanding at 6/30/95	Percent
With original amounts of \$100,000 or less	267	96.4%	\$1,906,000	45.1%
With original amounts of more than \$100,000 through \$250,000	7	2.5%	\$911,000	21.6%
With original amounts of more than \$250,000 through \$1,000,000	3	1.1%	\$1,404,000	33.3%
TOTAL	277	100%	\$4,221,000	100%

COMMUNITY REINVESTMENT ACT ASSESSMENT (CONTINUED)

LENDING TO BUSINESSES OF DIFFERENT SIZES (continued)

Additionally, the statistical sample of commercial loans originated during the six month period covering January 1996 through June 1996 was utilized to determine the distribution of loans to businesses of different sizes. Specifically, a sample of 66 commercial loans originated during this period revealed that 55 loans or 83% were made to businesses with gross revenues of \$1 million or less. Eight loans or 12% were made to businesses with gross revenues of \$1 million or more. The remaining three loans or 5% could not be identified. Such distribution is deemed commensurate with the institution's asset size, lending capacity, and the overall demographic nature of its assessment area.

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

CSB generally solicits credit applications from all segments of its local community. Management has established consumer and commercial loan policies that evidence its commitment to evaluate and offer credit requests without regard to any prohibited basis. A review of the bank's credit policies revealed no evidence of prohibited discriminatory practices such as prescreening or the discouragement of applicants for the types of credit set forth in CSB's CRA statement.

The bank is in general compliance with the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act, and the Fair Housing Act and other agency regulations pertaining to nondiscriminatory treatment of credit applicants. An evaluation of the actual lending practices of the bank noted an overall adherence to the antidiscrimination laws and fair lending statutes.

Finally, no consumer complaints have been filed with this Reserve Bank as of this examination date, nor is the bank currently engaged in any litigation related to consumer credit statutes.