

PUBLIC DISCLOSURE

October 23, 1997

COMMUNITY REINVESTMENT ACT

PERFORMANCE EVALUATION

**AMBASSADOR BANK OF THE COMMONWEALTH
DSBB - 1496020
ALLENTOWN, PENNSYLVANIA**

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

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Reserve Bank of Philadelphia concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment ACT (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound 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 **Ambassador Bank of the Commonwealth** prepared by the **Federal Reserve Bank of Philadelphia**, as of **October 23, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

DISCUSSION OF INSTITUTION-S PERFORMANCE

SCOPE OF EXAMINATION

The scope of the examination consisted of an assessment of the lending performance of Ambassador Bank of the Commonwealth (AB) since the previous examination conducted, as of July 22, 1996, by this Reserve Bank. The assessment is based primarily upon an analysis of home mortgage loans originated during 1996, as detailed in the 1996 Home Mortgage Disclosure Act Loan Application Register (HMDA LAR), and the first six months of 1997, and consumer and commercial loan activity during 1996. In an effort to better understand the credit needs of the bank-s assessment area (AA), as delineated for purposes of CRA, interviews were conducted with representatives of the Community Action Committee of the Lehigh Valley, the Allentown Chamber of Commerce, the Redevelopment Authority of the City of Bethlehem, the Consumer Credit Counseling Service of Lehigh Valley, Inc., and the Lehigh University Small Business Development Center. Also, the Lenders-Profile of Easton, prepared by this Reserve Bank as of July 1994, was utilized to gain additional perspective on AA credit needs. The examination also includes an evaluation of the institution-s compliance with anti-discrimination laws and regulations. The evaluation was based solely on those activities and initiatives which occurred during the period between examinations.

INSTITUTION-S RATING: This institution is rated **OUTSTANDING**, based upon the observations and review conducted during this examination.

AB maintains a reasonable lending level, for purposes of CRA, based on quarterly loan-to-deposit ratios since the previous examination and the overall economic condition of the AA in which it operates. The bank has extended a substantial majority of its loans (inclusive of home mortgage loans, non-HMDA consumer loans, and commercial loans) to commercial and consumer borrowers, whom either conduct business operations or reside in the AA.

Most importantly, notwithstanding the retail orientation of its lending activities, virtually all of the bank's commercial purpose loans, which are substantial in number and dollars, have financed the operations of small businesses in the AA. Moreover, through its own internally developed lending mechanism, the Ambassador Bank Entrepreneurial Loan Fund Program, the bank continued to address the credit needs of several small or start-up businesses unable to meet the underwriting standards imposed by more conventional lending programs designated for small businesses. Such a lending profile is especially relevant in view of the AA-s decreased manufacturing base.

AB increased its volume of home mortgage originations significantly during 1996 over that of 1995, and originated a substantial volume of mortgages during the first six months of 1997. The geographic distribution of AB-s home mortgage lending activities are reflective of a more than proportionate lending presence in upper-income geographies, relative to applicable AA demographics. Nevertheless, in context of overall economic and housing characteristics of the AA, the bank-s mortgage penetration of low- and moderate-income geographies reasonably corresponds to the percentage of the AA population residing in same. Additionally, since the previous evaluation, AB has effectively increased its mortgage penetration among low- and moderate-income persons, irrespective of geography, to a level commensurate with the percentage of low- and moderate-income families residing in the AA. Finally, the bank continues to originate a notable volume of home improvement credit to low- and moderate-income homeowners, indicative of the bank-s response to the credit needs associated with the substantial volume of older housing units located in the AA-s principle cities of Allentown, Bethlehem, and Easton.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF INSTITUTION

AB, headquartered in Allentown, Pennsylvania, is a full-service commercial bank which commenced operations in October 1990. The bank currently operates eight full-service banking offices, including three offices that opened subsequent to the previous examination. Two of the three newer offices are located in the city of Bethlehem at 231 East Broad Street and 1605 West Broad Street. The 231 East Broad Street office came into being with AB's acquisition of Wilbur Savings Bank, which had been based in Bethlehem.

The bank's Uniform Consolidated Reports of Condition and Income, filed as of June 30, 1997 for regulatory purposes, reported total assets of \$235.7 million, with total loans outstanding representing 65% of this amount. Loan and deposit products offered by AB are listed below.

Ambassador Bank of the Commonwealth	
<u>Loan Products</u>	<u>Deposit Products</u>
Installment Loans	Checking Accounts
Automobile Loans	Savings Accounts
Home Equity/Improvement Loans	Business Accounts
Residential Mortgages	Certificates of Deposit
Small Business Loans	Money Market Deposit Accounts
Commercial Loans	Individual Retirement Accounts
Home Equity Lines of Credit	Club Accounts

AB's loan mix indicates that it is primarily a retail lender, with a secondary emphasis on commercial lending. In dollar terms, 42% of the bank's total loans outstanding at June 30, 1997 consisted of residential real estate loans, while 15% of the loan portfolio was comprised of credit extended for consumer or personal use and not secured by real estate. Although not all loans secured by residential real estate have been extended for consumer purposes, the majority have been originated as consumer purpose home mortgages. The balance of the portfolio was essentially comprised of commercial purpose credit extended to small businesses within the AA. Additional details of AB's loan mix since year end 1994 are presented under Loan to Deposit Ratio.

DESCRIPTION OF ASSESSMENT AREA/AMBASSADOR BANK OF THE COMMONWEALTH

[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

AB's AA encompasses Northampton and Lehigh Counties, which are included in the Allentown, Bethlehem, Easton Metropolitan Statistical Area (MSA), situated in the central-eastern portion of Pennsylvania. As such, the AA is comprised of 134 census tracts, including the three cities of Allentown, Bethlehem, and Easton and several suburban geographies contiguous to each. Of the 134 tracts, three do not have any residential population. Thus, applicable analyses presented in this evaluation are based on 131 tracts in the AA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA/AMBASSADOR BANK OF THE COMMONWEALTH (continued)

Census Tracts (continued)

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

Ambassador Bank Assessment Area Census Tracts and Population				
Census Tract Type:	Number of Tracts AA:	Percent Tracts AA:	Population:	Percent of Total AA Population:
LOW	4	3	11,711	2
MODERATE	17	13	54,344	10
MIDDLE	86	66	355,953	66
UPPER	24	18	116,227	22
AA-s Total:	131	100%	538,235	100%

Source: Federal Reserve System Board of Governors- Community Lending Analysis System (CLAS)

Income and Housing

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

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	2	42,601	21	2,506	2	23,358	16
MODERATE	19,914	10	33,451	17	12,270	8	27,147	18
MIDDLE	138,271	68	43,415	21	99,217	68	39,042	27
UPPER	41,038	20	83,704	41	33,089	22	57,534	39
TOTAL	203,171	100%	203,171	100%	147,082	100%	147,082	100%

Source: CLAS

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA/AMBASSADOR BANK OF THE COMMONWEALTH (continued)

Income and Housing (continued)

Of the AA's 203,171 households, 72.4 % are comprised of families. As shown in the first table, the AA's median income is somewhat above that of the state, while its median housing value is considerably higher than the state's. However, 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.

Assessment Area Demographic Comparisons				
	AA	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%

Source: CLAS

It should also be noted that, although the percentage of the AA's population living in low- and moderate-income geographies is not substantial, 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 population shifts, especially of middle - and upper-income persons, to newer suburban housing subdivisions.

Local Economy and Employment

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, 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.

Input gleaned from the outside parties, interviewed as part of the evaluation, noted that reduced manufacturing activities of companies such as Bethlehem Steel Corp. and Mack Truck, Inc. have exerted a substantial impact upon the MSA's economy. One of the interviewees, in particular, noted the loss of 20,000 jobs over the past two decades, and its negative effect on the local economy. In this regard, interviewees, noting the sharp reduction in manufacturing activities, clearly indicated the importance of lending activities to address the ongoing credit needs of small and fledgling business operations within the MSA.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

DESCRIPTION OF ASSESSMENT AREA/AMBASSADOR BANK OF THE COMMONWEALTH (continued)

Local Economy and Employment (continued)

Additionally, Bethlehem Steel Corp. announced on December 29, 1997 that it would discontinue its local coke operations in March 1998, thereby closing its last manufacturing facility in the city of Bethlehem. During 1995, the company reduced its operations workforce in Bethlehem to 2,100 from 3,600. Another 700 jobs were eliminated in the city in March 1997 with the closing of a local rolling mill. It has been reported that the announced closure will result in the additional loss of nearly 900 jobs.

Based upon U.S. Census Bureau statistics, the AA's total population increased by 8% between 1980 and 1990. Notwithstanding the AA's decreased manufacturing base, the Joint Planning Commission of Lehigh and Northampton Counties, projects a population increase in the Lehigh Valley region of 7% by the year 2000. Based on 1994 data, manufacturing jobs represented nearly 25% of total employment within the MSA, while retailing and service jobs accounted for 48.5%. 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 (a 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.

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

Source: GLAS

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.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued)

Accordingly, AB'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, comparisons to average loan-to-deposit ratios for AB's national peer group, and the economic characteristics and demographics of the AA in which the bank operates.

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.

As Of	Net Loans (thousands)	Deposits (thousands)	Ratio	Peer*
09/30/96	\$130,513,000	\$170,955,000	76.3%	70.5%
12/31/96	\$138,403,000	\$177,932,000	77.8%	70.6%
03/31/97	\$143,492,000	\$194,194,000	73.9%	70.6%
06/30/97	\$151,283,000	\$205,571,000	73.6%	72.1%
Quarterly Loan to Deposit Ratio Average Since Previous Examination			75.4%	71.0%

Source: Uniform Bank Performance Report (UBPR) prepared by the Federal Deposit Insurance Corporation (FDIC) for use by federal regulators

The next table depicts the bank's loan-to-deposit ratio and growth rates since year end 1994.

	6/30/97	PEER	12/31/96	PEER	12/31/95	PEER	12/31/94	PEER
Loan-To- Deposit Ratio	73.6%	72.1%	77.8%	70.6%	68.2%	68.1%	74.8%	68.8%
Asset Growth	26.2%	10.1%	26.7%	9.2%	35.3%	9.1%	30.8%	5.0%
Loan Growth	32.0%	13.5%	44.3%	13.2%	28.3%	10.2%	42.9%	10.2%

Source: UBPR

AB's average loan-to-deposit ratio is reflective of an ongoing responsiveness to AA credit needs commensurate with its financial resources. Although the bank's loan-to-deposit ratio has decreased somewhat during the four consecutive quarters between September 30, 1996 and June 30, 1997, while the corresponding national peer average increased, the bank has maintained an overall lending level wherein quarterly loan-to-deposit ratios consistently exceeded peer averages. The following table presents AB's loan mix since year-end 1994, reflecting a profile oriented towards real estate and commercial lending.

* The bank's peer group consists of all insured commercial banking institutions having assets between \$100 and \$300 million with three or more banking offices located in a metropolitan area.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LOAN-TO-DEPOSIT RATIO (continued)

Loan type	6/30/97	%	3/31/97	%	12/31/96	%	12/31/95	%	12/31/94	%
REAL ESTATE	99,691	65.3	92,462	63.8	88,014	63.0	61,807	63.7	52,661	69.6
COMMERCIAL	17,331	11.3	16,853	11.6	15,746	11.3	12,009	12.4	10,075	13.3
CONSUMER LOANS	35,618	23.3	35,569	24.5	35,984	25.6	23,144	23.9	12,889	17.1
AGRICULTURAL	0	0	0	0	0	0	0	0	0	0
OTHER	112	0.1	29	0.1	24	0.1	12	0	13	0
TOTAL	152,752	100%	144,913	100%	139,768	100%	96,972	100%	75,638	100%

Source: UBPR

LENDING IN ASSESSMENT AREA

The criterion of this performance category evaluates an institution's lending within and outside of its AA. In terms of number, a substantial majority of loans, originated by AB, are extended to borrowers within its AA.

This overall assessment is based primarily on analyses of all home mortgage loans originated during 1996 and the six months ended June 30, 1997 and all consumer and commercial loans originated during 1996.

Presented below, is a summary of home mortgage loans (in terms of number) originated inside and outside of the AA during 1996 and the first half of 1997.

HMDA LOAN PENETRATION						
	1996		January - June 1997		Total	
	Number	Percent	Number	Percent	Number	Percent
INSIDE	249	96	128	99	377	97
OUTSIDE	11	4	1	1	12	3
TOTAL	260	100%	129	100%	389	100%

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING IN ASSESSMENT AREA (continued)

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

LOAN PENETRATION		
Consumer and commercial Loans-1996		
	Number	Percent
INSIDE	2826	79
OUTSIDE	732	21
TOTAL	3,558	100%

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 different incomes and businesses of different sizes, with a focus on low- and moderate-income borrowers and small businesses.

Borrowers of different incomes have been defined by their income relative to the MSA median family income for 1996 and 1997. AB's lending profile among borrowers of different incomes is based primarily on its home mortgage lending activities during 1996 and the six months ended June 30, 1997. 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 as filed for regulatory and supervisory purposes.

Notwithstanding AB's retail lending orientation, a greater weight has been placed on lending distribution among businesses of different sizes in context of the marked decrease in manufacturing activities in the AA and the importance of small business activities to the MSA's ongoing economy. Accordingly, the distribution of loans among borrowers reflects an excellent distribution among businesses of different sizes, particularly small businesses. Additionally, the bank's home mortgage lending profile during 1996 is reflective of an increased penetration of low- and moderate-income individuals over that of 1995 with a sustained lending presence among the AA's low- and moderate-income segment during the first half of 1997.

Businesses of different sizes

Consolidated Reports of Condition and Income prepared and filed by AB as of June 30, 1997 indicate that 97% of the \$28.0 million in loans outstanding, secured by nonfarm/nonresidential real estate, were extended to small businesses, while 96% of the \$17.0 in commercial and industrial loans outstanding were originated to small businesses. Small business loans outstanding as of June 30, 1997 and June 30, 1996 (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 SIZES (continued)

Businesses of different sizes (continued)

Loans to Small Businesses Commercial and Industrial Loans								
As of June 30,	Number Outstanding		Percent		Amount Outstanding		Percent	
	1996	1997	1996	1997	1996	1997	1996	1997
With original amounts of \$100,000 or less	571	563	94	89	8,086	7,597	62	47
With original amounts of \$100,000 through \$250,000	30	54	5	8	3,707	5,338	28	33
With original amounts of more than \$250,000 through \$1,000,000	6	18	1	3	1,290	3,393	10	21
TOTAL	607	635	100%	100%	13,083	16,328	100%	100%

Source: 1996 and 1997 Consolidated Reports of Condition and Income filed by Ambassador Bank for regulatory purposes

Loans to Small Businesses Loans Secured By Nonfarm/Nonresidential Real Estate								
As of June 30,	Number of Loans		Percent		Amount Outstanding		Percent	
	1996	1997	1996	1997	1996	1997	1996	1997
With original amounts of \$100,000 or less	47	55	36	33	1,768	2,072	8	7
With original amounts of more than \$100,000 through \$250,000	56	73	42	43	8,392	10,805	40	40
With original amounts of more than \$250,000 through \$1,000,000	29	41	22	24	11,068	14,333	52	53
Total	132	169	100%	100%	21,228	27,210	100%	100%

Source: 1996 and 1997 Consolidated Reports of Condition and Income filed by Ambassador Bank for regulatory purposes

The foregoing profiles clearly evidence a proactive response by AB to the operating needs of small businesses. Nearly 90% of the number of commercial and industrial loans extended to small businesses at mid-year 1997 were originated in amounts of \$100,000 or less, while more than 75% of the total number of loans secured by nonfarm/nonresidential real estate (i.e., commercial mortgages) and extended to small

(continued)

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Businesses of different sizes (continued)

businesses were originated in amounts of \$250,000 or less. Moreover, one of the external parties interviewed during the examination commented favorably upon the bank's substantial volume of loans extended to small businesses and indicated that, with respect to the aggregate origination of such credit within the general Lehigh Valley area, AB had captured a substantial portion of the market share of a super regional banking organization.

The following table depicts the bank's commercial purpose and commercial mortgage loans extended to small businesses, combined. As such, nearly 80% of the total number of loans outstanding at mid-year 1997 were originated in amounts of \$100,000 or less.

LOANS TO SMALL BUSINESSES				
	Number	Percent	Amount Outstanding at June 30, 1997	Percent
Loans with original amounts of \$100,000 or Less	618	77	\$ 9,669,000	22
Loans with original amounts of more than \$100,000 through \$250,000	127	16	\$16,143,000	37
Loans with original amounts of more than \$250,000 through \$1,000,000	59	7	\$17,726,000	41
TOTAL SMALL BUSINESS LOANS®	804	100%	\$43,538,000	100%

Source: Consolidated Reports of Condition and Income filed by Ambassador Bank as of June 30, 1997

Most notably, through its own lending program, AB continues to proactively finance creditworthy small businesses that generally, are unable to meet the credit underwriting standards of government sponsored or more traditional bank lending programs that have been established for small businesses. Under the Ambassador Bank Entrepreneurial Loan Fund Program, established in April 1994, AB's management allocated \$2.0 million to fund loans to businesses within the AA that have annual gross revenues of no more than \$2.0 million and operate with 25 or fewer employees. To date, the bank has nearly reached its total allocation under the program, having originated 41 loans in an aggregate amount of \$1,941, 591. AB has continually originated loans under the program each year since its inception. Since the previous examination, eight loans were originated in an aggregate amount of \$411,500.

Additionally, since the previous evaluation, AB originated two loans to small businesses in an aggregate amount of \$630,000 under the Bridgeworks Enterprise Center Small Business Incubator/U.S. Small Business Administration (SBA) 504 Debenture Loan Program. The program provides for 90% financing of a given business initiative or need; wherein the SBA provides 40% of the funding, a commercial bank or financial institution provides 50%, and the remaining 10% is provided for via an equity position or down payment by the borrower. Under the program, any need or initiative financed must ultimately result in the creation of jobs. It is noteworthy that the two loans originated under the program during 1997 financed businesses operating in governmentally designated economic Enterprise Zones within the cities of Allentown and Bethlehem.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Businesses of different sizes (continued)

It is also noted that AB, together with several other financial institutions that operate in the AA, participates in the Bethlehem Economic Development Corporation (BEDCO) loan pool. The BEDCO loan pool's express purpose is to provide an incentive to local businesses to create or retain jobs within the city of Bethlehem. To date, AB has committed \$40,000 to the pool; three loans were originated from the pool during the second quarter of 1997.

Borrowers of Different Incomes

Consistent with its retail lending orientation, AB originated more than twice the number of home mortgage loans in 1996 than it did in 1995. The bank originated 249 mortgages during 1996 in an aggregate amount of \$15.2 million to finance residential dwellings in the AA, approving 99 % of total mortgage applications received that year. Given the substantial volume of home mortgage credit originated, AB's mortgage lending activities during 1996 were utilized to assess the overall lending penetration among borrowers of different incomes. Summaries of home mortgage originations for 1996 and 1995, by loan type, are presented below in terms of number and dollar amounts.

1996 HMDA DATA Total Loan Originations				
	Number	%	Amount	%
Purchases	83	33	6,740	44
Refinances	118	48	7,083	47
Home Improvement	48	19	1,421	9
Total Loans	249	100%	\$15,244	100%

Source: 1996 HMDA LAR

1995 HMDA DATA Total Loan Originations				
	Number	%	Amount	%
Purchases	57	51	3,034	53
Refinances	36	32	2,382	42
Home Improvement	19	17	291	5
Total Loans	112	100%	\$5,707	100%

Source: 1995 HMDA LAR

Additionally, the year-to-date 1997 HMDA LAR shows that AB's substantial mortgage lending level has continued into 1997. For the six months ended June 30, 1997, the bank originated 128 loans in an aggregate amount of \$10.2 million.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Borrowers of Different Incomes (continued)

As noted under **Description of Assessment Area/Ambassador Bank of the Commonwealth**, median family incomes of the AA and the MSA, based on 1990 U.S. Census data, are \$38,627 and \$37,523, respectively. The 1997, 1996, and 1995 adjusted median family incomes for the MSA, as estimated by the U.S. Department of Housing and Urban Development (HUD), are \$45,800, \$43,800, and \$43,000, respectively, 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)
1997	\$45,800	<\$22,899	\$22,900-\$36,639	\$36,640-\$54,959	\$54,960 or more
1996	\$43,800	<\$21,899	\$22,900-\$35,039	\$35,040-\$52,559	\$52,560 or more
1995	\$43,000	<\$21,499	\$21,500-\$34,399	\$34,400-\$51,599	\$51,600 or more

Source: HUD

Accordingly, AB's profile of borrowers within the AA, based on applicable demographics and distribution analyses of home mortgage loans originated during 1995, 1996, and the first half of 1997, are presented as follows.

Borrower Income Distribution/1995 HMDA LOANS				
Borrower Income Category	AA Demographics (*Families Within Income Categories)		Home Mortgage Distribution (Based on 1995 adjusted median income)	
	Number	Percent	Number	Percent
Low and Moderate	50,506	34	25	22
Middle	39,042	27	23	21
Upper	57,534	39	55	49
Income not available	Not Applicable	Not Applicable	9	Not Applicable
Total Families	147,082	100%	112	100%

*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 SIZES (continued)

Borrowers of Different Incomes (continued)

Borrower Income Distribution/1996 HMDA LOANS				
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	70	28
Middle	39,042	27	57	23
Upper	57,534	39	121	49
Income not available	Not Applicable	Not Applicable	1	Not Applicable
Total Families	147,082	100%	249	100%

*Number of families based on 1990 census data.

Borrower Income Distribution/First Half of 1997 HMDA LOANS				
Borrower Income Category	AA Demographics (*Families Within Income Categories)		Home Mortgage Distribution (Based on 1997 adjusted median income)	
	Number	Percent	Number	Percent
Low and Moderate	50,506	34	35	27
Middle	39,042	27	33	26
Upper	57,534	39	61	47
Income not available	Not Applicable	Not Applicable	0	Not Applicable
Total Families	147,082	100%	128	100%

*Number of families based on 1990 census data.

The foregoing mortgage loan distribution analyses indicate that, with AB's substantially increased number of mortgage originations, it has achieved a substantial lending presence among low- and moderate-income persons within the AA, in context of applicable demographics, during 1996 and the first half of 1997. Such lending presence has been facilitated through proactive efforts on the bank's part to inform the AA's low- and moderate-income segment of the availability of various mortgage products designed to promote home

(continued)

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Borrowers of Different Incomes (continued)

ownership and effectively market same to this population segment. AB remains an active participant in both the Home Ownership Council Program (HOCP) and the Home Ownership Outreach Program (HOOP), housing programs sponsored by the Community Action Committee of the Lehigh Valley (CACLV). As noted under the Scope of Examination, CACLV was one of the external parties interviewed as a community contact.

HOCP provides, at no charge, education and support to first-time and low- and moderate-income mortgage applicants, seeking to purchase a home within the AA. Applicants that participate in HOCP are counseled on all aspects of the mortgage application process; including credit counseling, completing a formal mortgage application, alternative finance options, understanding a mortgage settlement, and understanding the financial obligations associated with home ownership. One of AB's officers serves as chairperson of HOCP.

HOOP, administered by CACLV and the Allentown Neighborhood Housing Services (ANHS), allows first time mortgage applicants, with limited incomes, to purchase a home with little or no down payment. Participating financial institutions provide 90% financing via a first mortgage with a 30-year term, priced at a fixed rate of interest with no points. The ANHS provides loans, via a second mortgage, of up to the remaining 10%. AB originated three loans through HOOP in an aggregate amount of \$112,500 during the seven months ended July 31, 1997.

Additionally, AB established the Ambassador Mortgage House (AMH) in May 1994 as a mortgage brokerage division of the bank. AMH accepts and processes home mortgage applications, thereby originating mortgages and subsequently selling same via the secondary mortgage market. The AMH mechanism enables the bank to offer an array of competitively priced mortgage products, including loans specifically designed to address the needs of first-time or low- and moderate-income mortgage applicants.

The number of home mortgage loans originated during 1995, 1996, and the six months ended June 30, 1997, are categorized by loan type and borrower income as follows.

HMDA Loans Originated in 1995								
	Purchases		Refinances		Home Improvement		Total Loans	
	#	%	#	%	#	%	#	%
Low/Moderate	12	21	5	14	8	42	25	22
Middle	6	10	12	33	5	26	23	21
Upper	34	60	18	50	3	16	55	49
Income N/A	5	9	1	3	3	16	9	8
Total	57	100%	36	100%	19	100%	112	100%

Source: 1995 HMDA LAR

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Borrowers of Different Incomes (continued)

HMDA Loans Originated in 1996								
	Purchases		Refinances		Home Improvement		Total Loans	
	#	%	#	%	#	%	#	%
Low/Moderate	13	16	41	35	16	33	70	28
Middle	19	23	30	25	8	17	57	23
Upper	51	61	46	39	24	50	121	49
Income N/A	0	0	1	1	0	0	1	<1
Total	83	100%	118	100%	48	100%	249	100%

Source: 1996 HMDA LAR

HMDA Loans Originated during the Six Months Ended June 30, 1997								
	Purchases		Refinances		Home Improvement		Total Loans	
	#	%	#	%	#	%	#	%
Low	4	7	4	8	1	4	9	7
Moderate	7	12	13	27	6	26	26	20
Middle	13	22	13	27	7	31	33	26
Upper	34	59	18	38	9	39	61	47
Total	58	100%	48	100%	23	100%	129	100%

Source: YTD (January through June 1997) HMDA LAR

In relative terms, the level of home purchase mortgages originated to low- and moderate-income borrowers decreased in 1996 from that of 1995. However, such decrease is not deemed unreasonable in view of the substantial number of refinance mortgages originated by the bank during 1996 (i.e., more home refinances were originated than home purchase or home improvement loans) and that AB's year-to-date 1997 purchase mortgage lending activity is reflective of an increased lending penetration among low- and moderate-income persons. Additionally, in evaluating the bank's home purchase lending profile, consideration has been given to the fact that, overall, housing within the AA is somewhat less affordable than that of the state as a whole, which likely precludes a considerable number of low-income persons from home ownership. Comparative housing affordability ratios for the AA and the state are .32% and .42%, respectively.¹

¹Comparative Housing Affordability (CHS) ratios are derived from 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.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES (continued)

Borrowers of Different Incomes (continued)

It is also noted that a remarkable percentage of AB's total home improvement loans originated for each of the three periods shown were extended to low- and moderate-income borrowers. Like many older urban center(s) located in metropolitan statistical areas throughout the nation, the respective housing stocks of Allentown, Bethlehem, and Easton, in which all of the AA's low- and moderate-income geographies are located, are comparatively old. The majority, or 55%, of Allentown's total housing units were built prior to 1950; nearly 50% of Bethlehem's units were built prior to 1950; and 71% of Easton's units were built prior to 1939. In this context, the bank's significant origination volume of home improvement loans suggests that AB effectively addresses the credit needs of low- and moderate-income homeowners in each of the cities.

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 AB's home mortgage lending activities for 1996, as reflected in the 1996 HMDA LAR, was primarily utilized to make an assessment. Additionally, the assessment is supported by distribution analyses of home mortgage loans originated during the six months ended June 30, 1997 and all non-HMDA consumer loans originated during 1996 and 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 depicts the geographic distribution of all home mortgage loans (inclusive of purchase, refinance, and home improvement transactions) originated during 1996 to finance owner occupied dwellings, comparing same to total home mortgages originated during 1995 and the six months ended June 30, 1997.

Distribution of HMDA Loans/1995,1996, and six months ended June 30, 1997									
	1995 Number	%	1995 Dollars	1996 Number	%	1996 Dollars	YTD 1997 Number	%	YTD 1997 Dollars
Low	3	3	126,000	4	2	149,000	2	2	115,000
Moderate	16	14	748,000	16	6	881,000	18	14	1,834,000
Middle	39	34	1,564,000	121	49	7,526,000	59	46	4,277,000
Upper	54	49	3,544,000	108	43	7,480,000	49	38	4,002,000
Total	112	100%	\$5,982,000	249	100%	\$16,036,000	128	100%	\$10,228,000

The next table details, by geography type, the number of home mortgage loans originated during 1996, comparing same to applicable AA demographics.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Geographic Distribution of Home Mortgage Loans/1996						
Income Characteristics (# tracts in AB's AA) (% of AA)			1996 Loans Originated		Population	Percent
			Number	Percent		
Low/Moderate Income	21	16	20	8	66,055	12
Middle Income	86	66	121	49	355,953	66
Upper Income	24	18	108	43	116,227	22
Totals	131	100%	249	100%	538,235	100%

AB's home mortgage lending profiles for 1995, 1996, and the first half of 1997 indicate that the bank has consistently maintained a lending presence in all of its AA's geography types, including low- and moderate-income census tracts. However, the distributions for 1995 and 1996 show a more than proportionate lending presence in the AA's upper-income geographies, relative to applicable AA demographics. Additionally, the percentage of loans originated in low- and moderate-income geographies during 1996 is less than half that during 1995.

The disproportionate percentages of loans originated to finance residential dwellings in upper-income geographies during 1995 and 1996 are not deemed unreasonable, for purposes of CRA. It should be noted that, with respect to home purchase transactions, AB's relative lending penetration of low- and moderate-income geographies reasonably corresponded to the applicable demographic measure in 1996 and exceeded same in 1995. The decreased percentage of mortgage originations in low- and moderate-income geographies during 1996, compared to that of 1995, should be viewed in context of the substantial number of refinance transactions originated by AB during 1996. As noted under **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**, nearly half of the 249 originations in 1996 were refinance mortgages, with the bank originating more home refinances than home purchase or home improvement loans that year. The tables below detail the bank's geographic lending distribution by product type during 1996 and 1995.

HMDA Loans Originated/1996								
	Purchases		Refinances		Home Improvement		Total Loans	
	#	%	#	%	#	%	#	%
Low/Moderate	9	11	9	8	2	4	20	8
Middle	40	48	65	55	16	33	121	49
Upper	34	41	44	37	30	62	108	43
Total	83	100%	118	100%	48	100%	249	100%

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

HMDA Loans Originated/1995								
	Purchases		Refinances		Home Improvement		Total Loans	
	#	%	#	%	#	%	#	%
Low/Moderate	12	21	4	11	3	16	19	17
Middle	18	32	14	39	7	37	39	35
Upper	27	47	18	50	9	47	54	48
Total	57	100%	36	100%	19	100%	112	100%

The evaluation of the bank's home mortgage lending presence throughout the AA has also been tempered by the disproportionate level of rental housing units within the AA's low- and moderate-income geographies. As noted below, 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	23	2,968	70
MODERATE	21,988	9,668	44	10,389	47
MIDDLE	144,772	100,397	69	38,346	27
UPPER	42,682	34,223	80	6,888	16
TOTAL	213,680	145,251	68	58,591	27

Moving forward to the first half of 1997, year-to-date HMDA data reflects an increased mortgage lending presence in the AA's low- and moderate-income geographies. The bank's ongoing proactive participation in HOCP and HOOP, and also the Outreach Committee of the Lehigh Valley, created to effectively inform low- and moderate-income persons of the availability of special mortgage and affordable housing programs, portends consistent lending activities by AB that effectively address the mortgage needs of low- and moderate-income geographies within Allentown, Bethlehem, and Easton.

Finally, the geographic distribution of all non-HMDA consumer purpose loans, originated by AB during 1996 and the first half of 1997, is clearly indicative of a reasonable dispersion of retail credit throughout the AA. Such distribution, comparing same to applicable AA demographics is presented below.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

GEOGRAPHIC DISTRIBUTION OF LOANS (continued)

Geographic Distribution of non-HMDA Retail Loans/1996 and the six months ended June 30, 1997						
Income Characteristics			1996 Loans Originated		Population	Percent
Low Income	Low Income (# tracts in AB-s AA (% of AA))		Number	Percent		
Low Income	4	3	27	1	11,711	2
Moderate Income	17	13	324	11	54,344	10
Middle Income	86	66	1,711	61	355,953	66
Upper Income	24	18	764	27	116,227	22
Totals	131	100%	2,826	100%	538,235	100%

QUALIFIED INVESTMENTS

In addition to its lending activities discussed and evaluated in the preceding sections, AB maintains an equity investment in the Allentown Development Corporation (ADCO), a local community development corporation, and has formally committed to establish a deposit in a community development credit union, located in Easton.

BRANCH SERVICES

AB's steadfast commitment to HOCP and HOOP, as described under **Lending to Borrowers of Different Incomes and Businesses of Different Sizes**, provides for expanded availability of home mortgage credit to low- and moderate-income persons in the AA and individuals seeking to purchase a home in the AA's low- and moderate-income geographies. Moreover, the credit counseling/repair services associated with such programs have increased substantially the number of low- and moderate-income applicants able to qualify for home purchase finance.

In assessing the bank's overall performance under CRA, consideration is also given to the bank's proactive offering of a checking account deposit product that has no minimum balance requirement nor maintenance or activity fees. The availability of such accounts provides the AA's low-income residents with access to basic banking or financial services as an alternative to reliance on local check cashing businesses that routinely impose comparatively high, if not exorbitant, fees.

RESPONSE TO COMPLAINTS

AB has not received any complaints regarding its CRA performance since the previous evaluation.

DISCUSSION OF INSTITUTION'S PERFORMANCE (CONTINUED)

COMPLIANCE WITH ANTIDISCRIMINATION LAWS

AB's formal credit policies prohibit discriminatory practices such as prescreening or the discouragement of applicants for any type of credit offered by the bank. The bank is in compliance with the substantive provisions of antidiscrimination laws and regulations, including; the Equal Credit Opportunity Act, the Fair Housing Act, the Home Mortgage Disclosure Act and other agency regulations pertaining to nondiscriminatory treatment of credit applicants.

The bank actively solicits credit applications from all geographic segments of its AA, including low- and moderate-income geographies. The examination revealed no unreasonable lending patterns nor evidence that AB failed to serve its entire AA. Management has formulated consumer and commercial loan policies that evidence its commitment to evaluate and offer credit requests without regard to any prohibited basis. Management has also adopted measures to ensure that bank employees are apprised of the requirements of consumer protection statutes and other regulations pertinent to credit discrimination.