



Comptroller of the Currency
Administrator of National Banks

Large Bank

Northeastern District
Eastern Pennsylvania Field Office
Four Greenwood Square, Suite 120
3325 Street Road
Bensalem, PA 19020

Public Disclosure

December 21, 1998

Community Reinvestment Act Performance Evaluation

**The Quakertown National Bank
Charter Number: 2366
10 North Third Street
Quakertown, Pennsylvania 18951**

**Comptroller of the Currency
Eastern Pennsylvania Field Office
Four Greenwood Square, Suite 120
3325 Street Road
Bensalem, Pennsylvania 19020**

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 financial supervisory agency 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 the safe and sound operation of the institution. Upon the 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 CRA performance of **The Quakertown National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **December 21, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

Institution's CRA Rating: This institution is rated **"Satisfactory."**

Primary factors supporting the bank's overall rating include:

- ▶ A high percentage of loans are made within the assessment area.
- ▶ Lending levels to small businesses are adequate which is responsive to the credit needs in the assessment area.
- ▶ There is an adequate level of lending penetration to borrowers of different income levels, including low- and moderate-income borrowers.
- ▶ There is an adequate level of qualified investments, grants, and donations.
- ▶ Service delivery systems are readily accessible to the entire assessment area, including low- and moderate-income families residing within the assessment area.

The following table indicates the performance level of **The Quakertown National Bank** with respect to the lending, investment, and service tests.

Table I. Results of Performance Tests

Performance Levels	The Quakertown National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Scope of the Examination

This evaluation of The Quakertown National Bank’s (QNB) CRA performance covers the period from January 1, 1997 through December 21, 1998. The analysis is based on the bank’s Home Mortgage Disclosure Act - Loan Activity Reports (HMDA-LAR) and Loan Registers. We tested these reports for accuracy during the examination. Specific loan products evaluated include: HMDA-reportable loans (i.e., home purchase mortgage, refinance, and home improvement loans), loans to small businesses, loans to small farms, and community development loans. We also evaluated community development investments, retail services, and community development services.

Description of Institution

QNB is a 121-year old, \$311 million community bank which provides a full range of commercial and retail banking services. The bank is a wholly owned subsidiary of QNB Corporation headquartered in Quakertown, Pennsylvania. There are no operating subsidiaries of the bank. Additionally, there are no financial or legal impediments impacting QNB’s ability to help meet its community credit needs.

QNB services Upper Bucks County and Northern Montgomery County, along with small portions of Southern Lehigh County and Southeastern Berks County through its six full service banking offices. The bank offers eight automated teller machines (ATMs). This includes two ATMs at the main office, one at each branch location, and one at the bank’s operation center. QNB did not open or close any branches during the evaluation period.

The following table illustrates the composition of QNB's loan portfolio as of September 30, 1998.

Loan Type	\$ Amount (000)	% of Portfolio
Residential Mortgages	70,008	41%
Commercial Mortgages	62,807	37%
Commercial Loans	23,428	14%
Municipal Loans	7,978	5%
Consumer Loans	5,270	3%
Totals	169,491	100%

Competition in the bank's market area is strong and is primarily provided by First Union, First Savings Bank of Perkasie, Union National of Souderton, National Penn Bank, and Harleysville National Bank.

Description of Assessment Area

QNB has defined its one assessment area as 63 contiguous census tracts (CTs) which is primarily comprised of Upper Bucks and Northern Montgomery counties in MSA 6160. It also comprises small portions of Lehigh County (MSA 0240) and Berks County (MSA 6680). Fifty-seven (90%) of the sixty-three total CTs are located in MSA 6160. Five CTs (8%) are in MSA 0240 and one CT (2%) is in MSA 6680. There are no low- or moderate-income CTs within the assessment area. Forty-nine CTs (78%) are designated as middle-income and the remaining fourteen CTs (22%) as upper-income.

The bank has specified only one assessment area because the five CTs in MSA 0240 do not extend substantially beyond the border of MSA 6160. Additionally, these five CTs comprise only 3.5% of the MSA 0240's total tracts and 7% of Lehigh County's total CTs. Also, the percentage of the population residing within the five tracts is only 4% of the entire MSA and 7% of Lehigh County's total population. The one CT located in MSA 6680 also does not extend substantially beyond the border of MSA 6160.

There are 6,065 companies which qualify as small businesses which equate to 76% of the total businesses within the assessment area. Conversely, there are only 298 small farms which equate to 88% of the total farms within the assessment area. QNB's assessment area meets the requirements of the CRA regulation, and does not arbitrarily exclude any low- or moderate-income areas.

Based on 1990 census data, QNB's assessment area has a population of 224,317 which

includes total households of 79,691. The median family income for the assessment area averages \$41,494. Housing units total 83,335 of which 85% are one-to-four family units. Owner-occupied housing is 75% of the total, and rental occupied housing is 21% of the total. Vacant housing units equal 4% of the total units.

The local economy is growing slowly with an expanding population base. The local economy is primarily supported by a diverse mix of small businesses (mostly retail) with a growing number of mid-sized businesses. The larger employers in the area are Grand View Hospital, St. Luke's Quakertown hospital, Penn Foundation, Inc., Quakertown Community School District, Wal-Mart, Brown Printing and Cherrydale Farms. Unemployment rates have been relatively low and stable at approximately 4.3% and 3.7% for Bucks and Montgomery counties, respectively.

Credit needs of the community were determined during this examination through discussions with management. QNB's branch managers meet with approximately four or five community leaders within their respective trade areas each year in order to determine credit needs of the community. We also reviewed local community contacts made by other regulatory agencies. These sources all indicate that primary credit needs are readily available business loans for small, start-up businesses and affordable loans for first-time home buyers.

Conclusions with Respect to Performance Tests

Lending Test

Lending Activity

QNB originates a high percentage of loans in its assessment area. The following tables provide a breakdown of HMDA and business loans for 1997 and 1998. During 1997, an average of 88% of the number and 78% of the dollar amount of HMDA and business originations are within the assessment area. During 1998, an average of 87% of the number and 79% of the dollar amount of originations are within the assessment area.

HMDA Loan Originations Within The Assessment Area During Examination Period			
Number of Loans			
	1997 HMDA Loans	1998 HMDA Loans	Total
# of Loans Made in AA	308	473	781
Total Loans	340	522	862
% Originations in AA	91%	91%	91%
Dollar Amount of Loans (\$000)			
\$ Amount of Loans Made in AA	13,948	26,905	40,853
Total \$ Amount of Loans	16,333	30,468	46,801
% \$ Amount in AA	85%	88%	87%

Note: 1998 totals are through 12/8/98.

Business Loan Originations Within The Assessment Area During Examination Period			
Number of Loans			
	1997 Business Loans	1998 Business Loans	Total
# of Loans Made in AA	244	206	450
Total Loans	289	260	549
% Originations in AA	85%	79%	82%
Dollar Amount of Loans (\$000)			
\$ Amount of Loans Made in AA	23,618	19,382	43,000
Total \$ Amount of Loans	31,726	28,124	59,850
% \$ Amount in AA	75%	69%	72%

Note: 1998 totals are through 12/8/98.

QNB's loan-to-deposit (LTD) ratio has averaged 62% since the last examination period. This is lower than the national peer average of 72%. The lower LTD ratio is primarily attributable to the sale of most of the conforming residential mortgages to Freddie Mac. The bank retains servicing rights on all mortgages. In 1997, QNB sold 30 mortgages equating to \$2.5 million. In 1998, the bank sold 146 mortgages totaling \$14.7 million.

Lending to Borrowers of Different Income Levels

The bank's record of lending to borrowers of different income levels was evaluated using various reports generated from HMDA loan information from 1997 through December 8, 1998.

Our review revealed adequate lending penetration to borrowers of different income levels, including low- and moderate-income borrowers. For 1997, 28% of the number and 17% of the dollar amount of total originations were to low- and moderate-income borrowers. For 1998, 25% of the number and 14% of the dollar amount of total originations were to low- and moderate-income borrowers. These figures approximate the percentage of total low- and moderate-income families (28%) residing within the assessment area.

When considered separately, HMDA loan originations to moderate-income borrowers are very good compared to the percentage of such families living within the assessment area. However, the percentage of HMDA loans made to low-income borrowers is low when

compared to the percentage of low-income families residing in the assessment area. The median average cost of housing is \$139,215 and owner-occupied housing represents 75% of total housing units within the assessment area. The updated median family income is \$52,377 and income levels for low-income families begin at less than 50% of this figure. Therefore, it is evident that low-income families will encounter difficulty achieving home ownership.

Lender market share reports for 1997 HMDA-reportable loans reflect favorably on the bank as QNB is ranked in the top five among twenty-five other banks located within its assessment area. Specifically, QNB's market share equates to 3.06% of total loans within its assessment area. The bank originated 63 loans equating to \$1.9 million for a market share of 4.10% to moderate-income borrowers during this time frame. QNB also originated 19 loans equating to \$313 thousand for a market share of 5.08% to low-income borrowers during this time frame.

The following table depicts HMDA lending levels to borrowers of all income levels.

HMDA Loan Originations to Borrowers of Different Income Levels by Number and Dollar Amount										
Income Category	Low		Moderate		Middle		Upper		Total	
	# of Loans	%	# of Loans	%	# of Loans	%	# of Loans	%	# of Loans	%
1997	19	7%	63	21%	80	27%	135	45%	297	100%
1998	23	5%	91	20%	148	32%	195	43%	457	100%
	\$ Amt. (000)	%	\$ Amt. (000)	%	\$ Amt. (000)	%	\$ Amt. (000)	%	\$ Amt. (000)	%
1997	313	2%	1,971	15%	3,190	23%	8,180	60%	13,654	100%
1998	490	2%	3,086	12%	7,149	28%	14,956	58%	25,681	100%
Total Families	6,849 or 11%		10,583 or 17%		18,055 or 29%		26,771 or 43%		62,258 or 100%	

Note: 1998 HMDA loan data is through December 8, 1998; Income data was not available for 16 loans originated in 1998 and 11 loans originated in 1997.

Lending to Small Businesses and Small Farms

We evaluated QNB's record of lending to small businesses and small farms during 1997 and 1998. Small businesses and small farms are defined as entities with less than or equal to \$1 million in gross annual revenues. Small business loans are defined as loans of \$1 million and under in size, and small farm loans are defined as loans of \$500 thousand and under in size.

The bank is sufficiently responsive to the credit needs of small businesses and small farms, particularly considering QNB's asset size and competitive pressures from larger institutions within its assessment area. As noted earlier in this evaluation, there are 6,065 companies which qualify as small businesses which equate to 76% of total businesses within the assessment area. In 1997, 62% of QNB's small business loans by number and 39% by dollar amount were made to small businesses. In 1998, 60% of the bank's small business loans by number and 45% by dollar amount were made to small businesses. Additionally, 96% of total business loans within the assessment area were reported as small business loans during the evaluation period. There are only 298 small farms which equate to 88% of total farms within the assessment area. In turn, QNB has originated only six loans to small farms during 1997 and 1998 with each loan being less than \$100 thousand.

The following two tables provide a breakdown by original loan amount of business loans originated in the bank's assessment area during 1997 and 1998. The information illustrates that the vast majority (80%) of loans made to small businesses are for less than \$100,000. Loans granted to firms with annual revenues greater than \$1 million that are not considered small businesses are also depicted within the following tables.

Small Business Loans Originated in 1997 within the Assessment Area				
Original Loan Amounts to Businesses with Revenue <= \$1 Million	Small Business Loans Made to Small Businesses			
	# of Loans	%	\$ Amount (000)	%
Less than \$100,000	119	80%	3,713	42%
\$100,000 to \$250,000	25	17%	3,922	45%
\$250,001 to \$1,000,000	4	3%	1,138	13%
Total	148	100%	8,773	100%
Original Loan Amounts to Businesses with Revenue >= \$1 Million	Additional Small Business Loans			
	# of Loans	%	\$ Amount (000)	%
Less than \$100,000	54	61%	2,520	18%
\$100,000 to \$250,000	17	19%	3,133	22%
\$250,001 to \$1,000,000	18	20%	8,339	60%
Total	89	100%	13,992	100%

Small Business Loans Originated in 1998 within the Assessment Area				
Original Loan Amounts to Businesses with Revenue <= \$1 Million	Small Business Loans Made to Small Businesses			
	# of Loans	%	\$ Amount (000)	%
Less than \$100,000	93	79%	2,711	35%
\$100,000 to \$250,000	19	16%	3,210	41%
\$250,001 to \$1,000,000	6	5%	1,857	24%
Total	118	100%	7,778	100%
Original Loan Amounts to Businesses with Revenue >= \$1 Million	Additional Small Business Loans			
	# of Loans	%	\$ Amount (000)	%
Less than \$100,000	57	71%	3,036	32%
\$100,000 to \$250,000	18	23%	3,305	34%
\$250,001 to \$1,000,000	5	6%	3,294	34%
Total	80	100%	9,635	100%

Note: Data is through December 8, 1998.

Geographic Distribution of Loans

We evaluated the bank's geographic distribution of loans using various reports generated from HMDA loan information from 1997 through December 8, 1998.

As noted earlier in this evaluation, there are no low- or moderate-income CTs within the bank's assessment area. Forty-nine CTs (78%) are designated as middle-income and the remaining fourteen CTs (22%) as upper-income. Therefore, an in-depth analysis of this information would not be meaningful. In 1997, 284 loans (92%) were originated in middle-income CTs and 24 (8%) in upper-income CTs. In 1998, 419 loans (89%) were originated in middle-income CTs and 54 loans (11%) in upper-income CTs.

Community Development Lending

The bank did not make any community development loans during the evaluation period.

Product Innovation

QNB uses innovative and/or flexible lending practices in order to serve the credit needs of its assessment area. The bank introduced a new First Time Homeowner's mortgage product in April of 1998. Since this is a new product, only one loan totaling \$80 thousand has been extended under this program. An additional loan is currently pending approval. Highlights of the program include the following:

- Applicants are required to be first-time home buyers.
- The product is amortized over 30 years with a maximum LTV of 95%.
- The product is priced at par, and no points are assessed by the bank.
- The standard documentation fee of \$200 is waived for this product. However, an application fee of \$280 is assessed.

The following new products and underwriting guidelines have been introduced during the past two years due to requests received from various community leaders through the bank's "Ascertainment Program" (please refer to the Service Test section of this evaluation for details regarding this program): The revised underwriting guidelines provide low- and moderate-income applicants greater access to credit.

- ▶ A fifteen-year home equity loan product with no fees and no points when borrowing \$15,000 or more. Previously, standard fees applied to all home equity loans.
- ▶ A 100% home equity loan program. This program is targeted toward individuals who qualify for a standard closed-end home equity loan except that the loan-to-value ratio on their residence falls between 80% and 100%.
- ▶ The bank now finances 100% of the purchase price for new vehicles.
- ▶ The bank's qualifying debt-to-income ratios were recently increased to 42% for gross monthly income and 57% for net monthly income. In turn, low- and moderate-income applicants are now more likely to qualify for credit.

Investment Test

The bank has an adequate level of qualified community development investments and grants which are responsive to assessment area community development needs. Specifically, QNB has made, or committed to, an aggregate amount of \$206,700 in qualified community development investments, grants, and donations.

Prior to the evaluation period in 1995, QNB engaged in an equity investment of \$200 thousand to an organization for a low-income housing project. Currently, the bank's investment equals \$176 thousand. This project, which took over \$2 million to convert a former library into fifteen apartments, was funded by the Bucks County Housing Development Corporation (BCHDC). The facility is rented only to senior citizens with low-incomes which are determined per HUD guidelines. Since the project is funded through equity investments and other contributions, there are no debt service requirements and costs to the tenants can be kept reasonable.

QNB made a total of \$1,200 in qualified donations during the evaluation period. QNB made a \$700 donation to a non-profit organization that provides affordable housing for low- and moderate-income individuals. QNB made a \$500 donation to another organization that provides the following services: (1) emergency and transitional housing for homeless households; (2) housing counseling which focuses on homelessness prevention; and (3) educational seminars.

QNB recently joined a multi-bank Community Development Corporation (CDC). Since this is a new initiative, QNB has so far committed just \$5,500 to the CDC. QNB is one of several area banks involved with this CDC. The CDC serves as a vehicle for local community development programs benefitting a defined geographical area, initially serving Montgomery County and Central and Upper Bucks County. The first project for the CDC is a free health center for low-income individuals that will also include housing assistance and other counseling services.

Service Test

Retail Banking Services

The bank provides banking services primarily in Upper Bucks and Northern Montgomery Counties with five full-service banking facilities. QNB also offers retail banking services to a small portion of Southern Lehigh County as one full-service branch is located within this area. QNB offers eight ATMs to its customers. This encompasses two ATMs at the main office, one at each branch location, and one at the bank's operation center. As noted earlier in this evaluation, no branches were closed during this evaluation period. Offices are reasonably accessible to all parts of the assessment area. All branches are located within middle- and upper-income CTs as no low- or moderate-income CTs exist within the assessment area.

Office hours meet the convenience and needs of the entire community and include extended weekday and Saturday hours at all locations. Offices and service delivery systems are readily accessible to all segments of the assessment area. Additionally, services do not vary in any way that inconvenience low- and moderate-income individuals living within the assessment area.

The bank provides alternative systems for delivering retail banking services to its community, including ATMs, bank-by-mail, and bank-by-phone services. Telephone banking provides customers more convenient automated access for loan and deposit account inquiries. The bank also has a website on the Internet. The website discloses all services and products offered by QNB. Customers are able to send QNB electronic mail and request such information as loan applications and account disclosures. The bank also intends to implement "PC" (personalized computer) banking during 1999.

QNB offers a standard array of products and services appropriate for an institution of its size and capacity. Consumer products include various demand deposit and savings plans priced to meet the needs of a variety of customers. QNB also offers an Economy Checking Account that appeals to low- and moderate-income customers. This non-interest bearing product has no minimum balance requirements, and is free of service charges when customers use direct deposit. Currently, 1,764 such accounts exist at QNB. Per deposit tracking reports provided by QNB, approximately 350 accounts (20%) are held by low- and moderate-income individuals.

As noted earlier in this evaluation, the bank also offers various loan products with new underwriting guidelines that appeal to, and meet the needs of, low- and moderate-income individuals. Specifically, the bank has introduced various new products with revised underwriting standards during the past two years in response to requests received through

its “Ascertainment Program.” Through this program, bank management meets with various community leaders within its assessment area throughout the year to determine if there are any unmet needs within their communities. The individuals contacted represent a cross-section of people, business interests, local governments, and community organizations within QNB’s assessment area. Please refer to the “Product Innovation” section of this evaluation for specifics regarding these new products and/or underwriting requirements.

Community Development Services

QNB provides limited community development services within its assessment area.

Management participates in the UBCCC’s Small Business Counseling Panel on an ongoing basis by providing a commercial lender as a panelist. This program provides local small business owners with an opportunity to benefit from the combined expertise of the panel members on matters of general business development. For example, the panel can provide advice to an entrepreneur interested in a new business or to an existing business with a growth problem or a new idea. The panel consists of bankers, lawyers, accountants, insurance brokers, marketing professional, and other successful local business persons.

QNB performed fundraising activities during the evaluation period which resulted in a total of \$2,300 in qualified donations. The bank sponsored an annual “Casual for A Cause” program. Under this program, employees may dress casually during the summer months in an exchange for a \$2 donation. The money collected is divided equally among a group of five local charities. Donations to two non-profit organizations qualify for community development. One non-profit organization provides low-income individuals food, clothing, and assistance with rents and utility payments. The other non-profit organization is dedicated to the mission of stabilizing and preserving Upper Bucks County families in crisis its goals include the following: (1) to prevent families and/or single individuals from becoming homeless, and in those situations where families are homeless; (2), to assist in the elevation process of re-establishing a permanent and suitable home within the community.

Compliance with Antidiscrimination Laws

A fair lending review performed in conjunction with this CRA examination revealed that QNB is complying with fair lending regulations. We noted no practices intended to discourage or impede potential borrowers from applying for credit.

Metropolitan Statistical Areas

Conclusions with Respect to Performance in MSA 6160

QNB's performance in helping to meet the credit needs of its assessment area within this MSA is consistent with the bank's overall performance.

Description of Institution's Operations in MSA 6160

Full service banking is provided throughout the entire portion of this MSA located within the bank's assessment area. Four branch offices (67%) and 6 ATMs (75%) are located within this MSA. Each office offers a full range of loan and deposit services/products. QNB's focus in this MSA, which is consistent throughout the entire assessment area, is small business lending and home improvement/mortgage loans that provide flexible underwriting standards.

Description of MSA 6160

The portion of MSA 6160 included in the assessment area contains 57 CTs broken out as follows: 0 low-income CTs (0%), 0 moderate-income CTs (0%), 46 middle-income CTs (81%), and 11 upper-income CTs (19%). Based on 1990 census data, the portion of the MSA within the assessment area has a population of 194,786 which includes total families of 53,864. The median family income averages \$46,069. Housing units total 72,920 of which 84% are one-to-four family units. Owner occupied housing is 73% of the total, and rental occupied housing is 23% of the total. Vacant housing units equal 4% of the total units. The major employers in the MSA include Quakertown Community School District, Wal-Mart, and St. Luke's Quakertown Hospital.

Conclusions with Respect to Performance Criteria in MSA 6160

Lending Test

QNB's performance in this MSA area is similar to the overall performance of the bank. Our analysis shows that the vast majority of HMDA (86%) and business (96%) loan originations were in this MSA during the examination period.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Our analysis of HMDA lending shows that 7% of 1997 originations in the MSA were to low-income borrowers, 22% were to moderate-income borrowers, 28% were to middle-income borrowers, and 43% were to upper-income borrowers. For 1998, our analysis of HMDA lending shows that 6% of originations in the MSA were to low-income borrowers, 20% were to moderate-income borrowers, 32% were to middle-income borrowers, and 42% were to upper-income borrowers.

Overall, this data illustrates adequate penetration of lending to borrowers of different income levels, particularly low- and moderate-income borrowers. HMDA loan originations to low-income borrowers is considered low compared to the percentage of such families within the MSA (11%). Conversely, HMDA loan originations to moderate-income borrowers is considered good compared to the percentage of such families residing within the MSA (18%). In general, lending patterns for this MSA are representative of QNB's overall assessment area.

QNB is responsive to the credit needs of small businesses within this MSA. During the examination period, 60% of commercial originations (253 loans) within the MSA were made to small businesses. Additionally, the six loans made to small farms in QNB's assessment area during the evaluation period originated within this MSA.

Lender market share reports for 1997 HMDA-reportable loans reflect favorably on the bank as QNB is ranked sixth among twenty-five other banks located within this segment of the MSA. Specifically, QNB's market share equates to 3.01% of total loans within this MSA. The bank originated 58 loans equating to \$1.8 million for a market share of 4.15% to moderate-income borrowers during this time frame. Additionally, QNB originated 18 loans equating to \$311 thousand for a market share of 5.29% to low-income borrowers during this time frame.

Geographic Distribution of Loans

There are no low- and moderate-income CTs within this MSA. Therefore, an analysis of this information would not be meaningful.

Community Development Lending

The bank did not make any community development loans during the evaluation period in this MSA.

Product Innovation

QNB uses innovative products and flexible lending practices in order to serve the credit needs of this MSA. These products and practices are consistent with what is offered throughout the entire assessment area. Please refer to the Lending Test section of this evaluation for further details.

Investment Test

The bank has an adequate level of qualified community development investments and grants within this MSA which is responsive to assessment area community development needs. Specifically, QNB has made, or committed to, an aggregate amount of \$206,700 thousand in qualified community development investments and grants. Additionally, all of the bank's qualified investments, grants, and donations were extended within this MSA. Please refer to the Investment Test section of this evaluation for further details.

Service Test

Four of QNB's six branch offices (67%) are located in this MSA. No branches are located in low- or moderate-income CTs as no such tracts exist within the bank's assessment area. Branches are reasonably accessible to all parts of the MSA within the assessment area. A full array of banking services is available at all locations. Additionally, services do not inconvenience low- and moderate-income individuals residing within this MSA. Low- and moderate-income families comprise 30.98% of total families residing within the MSA's 46 middle-income CTs. Low- and moderate-income families comprise 21.87% of total families residing within the MSA's 11 upper-income CTs.

Conclusions with Respect to Performance in MSA 0240

QNB's performance in helping to meet the credit needs of its assessment area within this MSA is consistent with the bank's overall performance.

Description of Institution's Operations in MSA 0240

Full service banking is provided throughout the rather small portion of this MSA located within the bank's assessment area. One branch office (17%) and 1 ATM (13%) is located within this MSA. This office offers a full range of loan and deposit services/products. QNB's focus in this MSA, which is consistent throughout the entire assessment area, is small business lending and home improvement/mortgage loans that provide flexible underwriting standards.

Description of MSA 0240

The portion of MSA 0240 included in this assessment area contains 5 CTs broken out as follows: 0 low-income CTs (0%), 0 moderate-income CTs (0%), 2 middle-income CTs (40%), and 3 upper-income CTs (60%). Based on 1990 census data, the portion of the MSA within this assessment area has a population of 21,880 which includes total families of 6,263. The median family income averages \$45,815. Housing units total 7,664 of which 95% are one-to-four family units. Owner occupied housing is 85%, rental occupied housing 12%, and vacant housing 3% of total units. The major employers in the MSA include Southern Lehigh School District, Lutron Electronics, and Allentown College.

Conclusions with Respect to Performance Criteria in MSA 0240

Lending Test

QNB's performance in this MSA is similar to the overall performance of the bank. Our analysis shows that a small percentage of HMDA (12%) and business (4%) loan originations were within this MSA during the examination period. These figures are considered reasonable since this MSA comprises a small percentage of the bank's overall assessment area.

Lending to Borrowers of Different Income and Businesses of Different Sizes

Our analysis of HMDA lending shows that 3% of 1997 originations in this MSA were to low-income borrowers, 11% were to moderate-income borrowers, 11% were to middle-income borrowers, and 61% were to upper-income borrowers. Income data was not available for the remaining 14% of originations during this time frame.

Our analysis of HMDA lending shows that 0% of 1998 originations in this MSA were to low-income borrowers, 20% were to moderate-income borrowers, 31% were to middle-income borrowers, and 49% were to upper-income borrowers.

Overall, this data illustrates adequate penetration of lending to borrowers of different income levels, particularly low- and moderate-income borrowers. Although low-income families comprise 9% of this MSA, a very low percentage of HMDA loan originations exist to low-income borrowers. However, HMDA loan originations to moderate-income borrowers is considered good compared to the percentage of such families residing within the MSA (14%). In general, lending patterns for this MSA are representative of QNB's overall assessment area.

QNB is responsive to the credit needs of small businesses within this MSA. During the examination period, 88% of commercial originations (14 loans) within the MSA were made to small businesses.

Lender market share reports for 1997 HMDA-reportable loans reflect favorably on the bank as QNB is ranked in the top five among twenty-five other banks located within this segment of this MSA. Specifically, QNB's market share equates to 3.67% of total loans within this MSA. The bank also originated 4 loans equating to \$119 thousand for a market share of 4.26% to moderate-income borrowers during this time frame. Additionally, QNB originated one loan equating to \$2 thousand for a market share of 3.85% to low-income borrowers during this time frame.

Geographic Distribution of Loans

There are no low- and moderate-income CTs within this MSA. Therefore, an analysis of this information would not be meaningful.

Community Development Lending

The bank did not make any community development loans during the evaluation period in this MSA.

Product Innovation

QNB uses innovative products and flexible lending practices in order to serve the credit needs of this MSA. These products and practices are consistent with what is offered throughout the entire assessment area. Please refer to the Lending Test section of this evaluation for further details.

Investment Test

No qualified investments or grants were originated within this MSA during the evaluation period.

Service Test

One of QNB's six branch offices (17%) is located in this MSA. The branch is not located in a low- or moderate-income CT as no such tracts exist within the bank's assessment area. The branch is reasonably accessible to all parts of this rather small portion of the MSA within QNB's assessment area. A full array of banking services is available at this office. Additionally, services do not inconvenience low- and moderate-income individuals residing within this MSA. Low- and moderate-income families comprise 23.71% of total families residing within the MSA's 2 middle-income CTs. Low- and moderate-income families comprise 22.44% of total families residing within the MSA's 3 upper-income CTs.

Conclusions with Respect to Performance in MSA 6680

QNB's performance in helping to meet the credit needs of its assessment area within this MSA is not consistent with the bank's overall performance, particularly within the lending test. However, QNB's performance in this MSA does not materially impact the bank's overall rating since it is such a small portion of the assessment area.

Description of Institution's Operations in MSA 6680

Full service banking is provided throughout the very small portion of this MSA located within the bank's assessment area. One branch (11%) is located within this MSA. The branch offers a full range of loan and deposit services/products. QNB's focus in this MSA, which is consistent throughout the entire assessment area, is home improvement/mortgage loans that provide flexible underwriting standards, small consumer loans, and small business loans.

Description of MSA 6680

The portion of MSA 6680 included in the assessment area contains only 1 CT which is designated as middle-income. Based on 1990 census data, the portion of the MSA within this assessment area has a population of 7,651 which includes total families of 2,131. The median family income averages \$38,206. Housing units total 2,751 of which 78% are one-to-four family units. Owner occupied housing is 82%, rental occupied housing is 15%, and vacant housing is 3% of total units. There are no major employers within this very small portion of the bank's overall assessment area.

Conclusions with Respect to Performance Criteria in MSA 6680

Lending Test

A nominal level of lending activity has taken place during the evaluation period because only one of the assessment area's 63 CTs is located within this MSA. Our analysis shows that a small percentage of HMDA (2%) and no business (0%) loan originations were made within this MSA during the examination period. These figures are considered reasonable since this MSA comprises a such small percentage of the bank's overall assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Our analysis of HMDA lending shows that 0% of 1997 originations in the MSA were to low-income borrowers, 17% were to moderate-income borrowers, 50% were to middle-income borrowers, and 33% were to upper-income borrowers.

Our analysis of 1998 HMDA lending shows that 0% of originations in the MSA were to low-income borrowers, 0% were to moderate-income borrowers, 67% were to middle-income borrowers, and 33% were to upper-income borrowers.

Although this data illustrates low penetration of lending to low- and moderate-income borrowers, it is not considered material as such a nominal level of the bank's overall lending activity takes place within this MSA. Additionally, market share reports for this MSA are not considered meaningful for the same reason.

No business loans were originated within this MSA during the evaluation period.

Geographic Distribution of Loans

The sole CT located within this MSA is designated a middle-income tract. Therefore, an analysis of this information would not be meaningful since no low- or moderate-income CTs exist within this MSA.

Community Development Lending

The bank did not make any community development loans during the evaluation period in this MSA.

Product Innovation

QNB uses innovative products and flexible lending practices in order to serve the credit needs of this MSA. These products and practices are consistent with what is offered throughout the entire assessment area. Please refer to the Lending Test section of this evaluation for further details.

Investment Test

No qualified investments, grants, or donations were originated within this MSA. Please refer to the overall assessment of investments for further details.

Service Test

One of QNB's six branch offices (17%) is located in this MSA. The branch is not located in a low- or moderate-income CT as no such tracts exist within the bank's assessment area. The branch is easily accessible to all segments of this very small portion of the MSA within QNB's assessment area. A full array of banking services is available at this office. Additionally, services do not inconvenience low- and moderate-income individuals residing within this MSA. Low- and moderate-income families comprise 32.24% of total families residing within the MSA's one middle-income CT.

Scope of Examination			
Time Period Reviewed	January 1, 1997 through December 21, 1998		
Financial Institution: The Quakertown National Bank Quakertown, Pa	Products Reviewed: HMDA Reportable Loans Small Business Loans Small Farm Loans		
Affiliates	Affiliate Relationship	Products Reviewed	
QNB Corporation Quakertown, Pennsylvania	QNB is a Wholly-Owned Subsidiary of QNB Corporation	None	
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
Includes Portions of MSA 6160, MSA 0240, and MSA 6680	On-Site	QNB's "Downtown Office"	None