



PUBLIC DISCLOSURE

Date of Evaluation: MARCH 22, 2010

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Name of Depository Institution: MERCHANTS BANK OF BANGOR

Institution's Identification Number: 935111

Address: 25 BROADWAY

BANGOR, PENNSYLVANIA

**FEDERAL RESERVE BANK OF PHILADELPHIA
TEN INDEPENDENCE MALL
PHILADELPHIA, PENNSYLVANIA 19106**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S RATING

INSTITUTION'S CRA RATING

Merchants Bank of Bangor (Merchants Bank) is rated **SATISFACTORY**.

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

Major factors contributing to this rating include:

- The loan-to-deposit ratio is considered reasonable, given the institution's size, financial condition, and assessment area credit needs.
- A substantial majority of loans and other lending-related activities is in the bank's assessment area.
- The distribution of borrowers reflects excellent penetration among individuals of different income levels (including low- and moderate-income) and businesses of different sizes, given the demographics of the assessment area.
- The geographic distribution of loans reflects reasonable dispersion throughout the assessment area.
- The bank's community development performance demonstrates adequate responsiveness, considering the bank's capacity, to the community development needs of its assessment area through community development loans, qualified investments and services.

SCOPE OF EXAMINATION

The performance by Merchants Bank under the Community Reinvestment Act (CRA) was rated satisfactory at the previous CRA Performance Evaluation, dated February 2, 2008, which was conducted by the Office of the Comptroller of the Currency.

This evaluation of the bank's CRA performance covers the period from February 3, 2008, through March 22, 2010, and was performed using the Interagency Intermediate Small Institution CRA Examination Procedures adopted by the Board of Governors of the Federal Reserve System. The procedures consist of two tests, the lending test and the community development test.

The lending test includes an analysis of:

- The loan-to-deposit ratio
- The volume of loans extended inside and outside the assessment area
- The extent of lending to borrowers of different incomes, including low- and moderate-income borrowers, and businesses of different sizes, including small businesses
- The geographic distribution of loans in the assessment area, including lending in low- and moderate-income census tracts
- The bank's response to substantiated complaints regarding its performance in meeting assessment area credit needs

The loan products evaluated and corresponding loan data reviewed include:

- Home purchase and home improvement loans and the refinancing of such loans, collectively titled as Home Mortgage Disclosure Act (HMDA) loans, reported by the bank for calendar years 2008 and 2009
- Total commercial loan balances outstanding as of June 30, 2009, and a statistical sample of small business loans originated by the bank during 2009

The bank's loans were compared to the aggregate of all lenders in the bank's assessment area reporting loans pursuant to HMDA and small business loans pursuant to CRA. These data are reported annually, and the most recent year for which information is available is 2008.

For purposes of evaluating the geographic distribution of loans, census tracts were classified on the basis of 2000 U.S. Census data. The distribution of loans to borrowers of different income levels was analyzed based upon annually adjusted median family income data made available by the U.S. Department of Housing and Urban Development (HUD). The most recent year for which family income data were available is 2009. All other demographic indices and statistics presented throughout this evaluation are based on 2000 U.S. Census data, unless otherwise noted.

The community development test includes an analysis of:

- The number and amount of community development loans
- The number and amount of qualified investments
- The extent to which the bank provides community development services
- The bank's responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services

The bank's community development loans, investments, and services were reviewed to assess its performance under the community development test.

Additionally, written documentation of interviews conducted with community representatives, prepared by the Federal Reserve and other regulatory agencies, was reviewed during the course of the evaluation to gain additional perspective on the credit needs of the community in which Merchants Bank operates.

DESCRIPTION OF INSTITUTION

Merchants Bank, headquartered in Bangor, Northampton County, Pennsylvania, is a state-chartered, full-service commercial bank with total assets of \$288 million as of December 31, 2009. As of the date of this evaluation, the bank offered consumer and commercial banking products and services to its customers through eight full-service offices and a loan production office, all located in Northampton County, Pennsylvania. One of the offices is located in a moderate-income census tract within the city of Easton, Pennsylvania. Another office is located in an upper-income tract in Northampton County, and the other six offices are located in middle-income tracts.

During the evaluation period, Merchants Bank closed two of its branch offices. The Bushkill office, located in an upper-income census tract at 291 West Moorestown Road, Nazareth, PA, was closed in June 2008. The Northampton office, located within a food supermarket in a moderate-income census tract at 101 Held Drive, Northampton, PA, was closed in October 2009. The evaluation determined that there are three other full-service commercial bank offices maintained by other banking organizations within a mile of the bank's closed Northampton office.

LOANS

As of December 31, 2009, Merchants Bank reported \$156 million in loans, equivalent to 54% of bank assets. The bank's loans increased 2% since its last CRA evaluation, when loans totaled \$153 million as of December 31, 2007. On a dollar volume basis, the most significant product offered by the bank is loans secured by residential properties. The second most material product is commercial mortgages.

The composition of the bank's loan portfolio is presented in the following table:

LOANS as of 12/31/2009	\$	%
Construction & Land Development Loans	11,043	7.1
Secured by Farm Land	882	0.6
Open-End Loans Secured by Residential Property	8,546	5.5
Closed-End Loans Secured by Residential Property	86,463	55.2
Secured by Multi-Family	5,801	3.7
Commercial Mortgages	29,525	18.8
Commercial and Industrial Loans	8,849	5.7
Consumer Loans	3,023	1.9
Obligations of State and Political Subdivisions	2,271	1.4
Other Loans	42	0.1
TOTAL LOANS	\$156,445	100%

The bank's asset size and financial condition indicate that it has the ability to effectively meet the credit needs of its assessment area, as delineated for purposes of CRA. There are no legal or other impediments that would hamper the bank's ability to meet community credit needs.

DESCRIPTION OF ASSESSMENT AREA

Merchants Bank has delineated its assessment area as all of Northampton County Pennsylvania, including the county's principal cities of Bethlehem and Easton. The assessment area is part of the Allentown-Bethlehem-Easton Metropolitan Statistical Area (MSA), which comprises Northampton, Lehigh, and Carbon Counties in eastern Pennsylvania and Warren County in western New Jersey.

The bank's assessment area complies with the requirements of CRA and does not arbitrarily exclude low- or moderate-income census tracts.

According to the 2000 Census data, the assessment area consists of 62 tracts: 5% (3 tracts) are designated as low-income, 18% (11 tracts) are moderate-income, 60% (37 tracts) are middle-income, and 18% (11 tracts) are upper-income. All three low-income census tracts are located in Bethlehem. Three of the assessment area's 11 moderate-income census tracts are located in Bethlehem, and five are located in Easton. The other three moderate-income census tracts are located in West Easton Borough, East Bangor Borough, and Northampton Borough. Twenty percent of the assessment area's population resides within the low- and moderate-income tracts.

The performance by Merchants Bank under CRA was evaluated in terms of the demographic and business context in which the bank operates. The assessment area's financial services market is highly competitive and dominated by large national and regional banking organizations. According to the Federal Deposit Insurance Corporation's (FDIC's) Summary of Deposits as of June 30, 2009, 17 depository institutions were operating in the assessment area. These institutions maintained a total of 116 branches holding \$5 billion in deposits. Merchants Bank ranked seventh, with \$224 million in deposits, or 4.5% of the assessment area's retail deposit market. National Penn Bank, headquartered in Berks County, had the largest share of deposits with a 21% market share.

As indicated on page 2, the bank's home mortgage lending was compared to the aggregate of all lenders in the assessment area reporting real estate mortgage loans pursuant to HMDA. The data are reported annually, and the most recent year for which information is available is 2008. According to aggregate data, 11,185 home mortgage loans were collectively originated by 326 HMDA reporters in the assessment area in 2008.

Although residential mortgage loans are its most significant product offering, Merchants Bank is not a major residential mortgage lender in terms of 2008 aggregate HMDA loan volume. It ranks 13th in mortgage origination volume within the assessment area, with a market share of 1.5%. Countrywide Bank FSB ranked first, holding 11% of the market. There was only one locally-based institution among the top 10 HMDA lenders within the assessment area, Lafayette Ambassador Bank, headquartered in Easton, with a 4% market share.

Regarding small business lending, Merchants Bank is not required to report small business loans for purposes of CRA; thus, it is not included in the ranking of small business lenders operating in Northampton County. Nevertheless, as indicated on page 2, a sample of the bank's small business loans was compared to the aggregate of all small business loans originated in the assessment area during 2008.

According to aggregate CRA loan data reported for 2008, 66 small business loan reporters collectively originated 9,315 small business loans. In comparison to 2007 aggregate data, when 71 CRA loan reporters originated 11,774 loans, the number of small business loans originated in the assessment area during 2008 decreased by 21%. Of course, 2008 was a year marked by a major financial crisis and impending economic turmoil nationwide. Nevertheless, interviews of representatives of various locally-based community and nonprofit organizations conducted by the Federal Reserve and other regulatory agencies identified small business loans as a major credit need within the assessment area

The interviews also identified needs for related technical assistance for area businesses struggling in the present economy and also lending programs providing down payment and closing cost assistance for low- and moderate-income homebuyers.

ECONOMIC CHARACTERISTICS

Generally, the economy of the Allentown-Bethlehem-Easton MSA benefits from the MSA's geographic proximity to New York City and Philadelphia. However, current weaknesses of the MSA's economy include exposure to old-line manufacturing and rising living costs. Education and health services are the most active segment of the private sector economy. According to data obtained from Moody's Economy.com, 19% of the total jobs in the Allentown-Bethlehem-Easton MSA are in the healthcare industry, comparable to the statewide measure of 19% and above the national measure of 14%. Professional and business services jobs represent 12% of total jobs in the MSA, and government jobs also represent a sizeable portion at 12%.

The area's largest employers include Lehigh Valley Hospital and Health Network; St. Luke's Hospital and Health Network; Air Products and Chemicals, Inc.; PPL Corporation; and Giant Food Stores.

Unemployment rates for the assessment area are presented in the following table. During 2009, the cities of Easton and Bethlehem experienced the highest levels of unemployment in the area. Although annual unemployment of 8.6% in Northampton County was lower than that of the Allentown-Bethlehem-Easton MSA as a whole, it was still somewhat higher than the Pennsylvania statewide unemployment rate of 8.1%.

MERCHANTS BANK OF BANGOR ASSESSMENT AREA DEMOGRAPHICS UNEMPLOYMENT RATES		
Geographical Area	Annual 2009	Annual 2008
City of Easton	9.6%	6.6%
City of Bethlehem	9.6%	6.3%
Northampton County	8.6%	5.6%
Allentown-Bethlehem-Easton MSA	8.9%	5.6%
Pennsylvania	8.1%	5.3%

HOUSING

The amount of owner-occupied housing located within designated census tracts is used as a proxy to estimate demand for home mortgage credit within such census tracts. According to 2000 Census data, the bank's assessment area contained 106,710 housing units, of which 70% are owner-occupied and 25% are rental units. Owner-occupied units in the low- and moderate-income census tracts represent 27% and 47% of total housing units, respectively, well below the percentage of owner-occupied units in middle-income (73%) and upper-income (86%) census tracts. The overall owner-occupancy rate in the assessment area was 70%, higher than the statewide rate of 65%.

Single-family units comprised 78% of all housing units, two-to-four family units 10%, multi-family units 9%, and mobile homes 3%. The median age of the housing stock was 43 years, the same as the statewide median. Median rent in the assessment area was \$576, with 35% of renters paying more than 30% of their income for housing. Median rent in the Allentown-Bethlehem-Easton MSA was higher at \$589, with 35% of renters paying more than 30% of income for housing. The statewide median rent was \$531, with 35% of renters paying more than 30% of their income for housing.

Based on 2000 Census data, the median housing value of the bank's assessment area was \$118,801. The data also indicate that a significant disparity exists between the median housing value of the assessment area's upper-income census tracts (\$154,750) and the median housing values of its low-income (\$75,418) and moderate-income (\$75,625) tracts. Also, based on data provided at Moody's Economy.com, the average existing home price in the Allentown-Bethlehem-Easton MSA fell to \$223,800 in 2009 from \$243,200 in 2008, a decrease of 8.0%.

BORROWER INCOME DATA

For purposes of evaluating the distribution of loans to borrowers of different income levels, incomes were categorized based upon annually adjusted median family income data made available by HUD. According to 2000 Census data, the median family income of the assessment area was \$53,923, 9.6% above the state median income of \$49,184. The 2009 adjusted median family income of the Allentown-Bethlehem-Easton MSA as reported by HUD was \$70,000.

The percentage of low- and moderate-income families is used as a proxy to estimate demand for home mortgage lending in the assessment area. Based on the 2000 census, 18% of the families in the assessment area were low income, and 19% were moderate income. Families living below the poverty level represented 6% of the total families in the assessment area, the same as the Allentown-Bethlehem-Easton MSA poverty level, but below the statewide poverty level of 8%.

GEOGRAPHIC BUSINESS DATA

The percentage distribution of businesses by census tract type within the assessment area is used as a proxy to estimate demand for business credit by census tract type. Based on 2009 Dun and Bradstreet business demographics, 10,782 businesses were located in the assessment area. Of this number, 89% were small businesses. (A small business is defined as a business with annual revenue of \$1 million or less.) The data also indicates that 3% of the assessment area's small businesses were located in low-income census tracts, and 13% were located in moderate-income census tracts. The majority of small businesses were located in middle-income (58%) and upper-income (26%) census tracts.

The following table presents relevant demographic information of the assessment area.

Merchants Bank of Bangor Assessment Area Demographics								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	3	4.8	2,420	3.4	823	34.0	12,531	17.5
Moderate-income	11	17.7	9,558	13.4	1,323	13.8	13,776	19.3
Middle-income	37	59.7	40,317	56.4	1,525	3.8	17,233	24.1
Upper-income	11	17.7	19,212	26.9	388	2.0	27,967	39.1
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	62	100.0	71,507	100.0	4,059	5.7	71,507	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied		Rental		Vacant		
	#	#	%	%	#	%	#	%
Low-income	4,281	1,142	1.5	26.7	2,860	66.8	279	6.5
Moderate-income	17,196	8,064	10.8	46.9	7,643	44.4	1,489	8.7
Middle-income	60,308	43,867	58.9	72.7	13,789	22.9	2,652	4.4
Upper-income	24,925	21,378	28.7	85.8	2,798	11.2	749	3.0
Unknown income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	106,710	74,451	100.0	69.8	27,090	25.4	5,169	4.8
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%
Low-income	379	3.5	313	3.3	47	5.7	19	5.4
Moderate-income	1,395	12.9	1,260	13.1	82	10.0	53	15.1
Middle-income	6,143	57.0	5,535	57.6	408	49.8	200	57.1
Upper-income	2,865	26.6	2,505	26.1	282	34.4	78	22.3
Unknown income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	10,782	100.0	9,613	100.0	819	100.0	350	100.0
	Percentage of Total Businesses:			89.2			7.6	3.2

CONCLUSIONS FROM PERFORMANCE TESTS

LENDING TEST

Performance by Merchants Bank under the Lending Test is assessed as satisfactory.

Loan-to-Deposit Ratio

A financial institution's loan-to-deposit (LTD) ratio compares the institution's aggregate loan balances outstanding to its total deposits outstanding. The ratio is a measure of an institution's lending volume relative to its capacity to lend, and is derived by adding the quarterly LTD ratios and dividing the total by the number of quarters. The LTD ratio of Merchants Bank is considered reasonable given the bank's size and financial condition and the credit needs of the assessment area.

The bank's LTD ratio averaged 70% over the past eight consecutive quarters of operation, compared to an average LTD ratio of 66% at its previous CRA evaluation. The bank's average LTD ratio is considerably lower than its peer group average of 85% over the same time period. The quarterly LTD ratios have gradually dropped during the period as net loans have grown at a rate of two percent, while deposits have grown at a rate of eight percent. The declining growth rate of loans, relative to the bank's deposit growth rate, is attributable in part to the bank's sale of a significant volume of its residential mortgage loans.

The following table shows the bank's quarterly LTD ratios for the eight quarters since the previous evaluation, together with the average LTD ratio for the same period.

MERCHANTS BANK HISTORICAL LOAN-TO-DEPOSIT RATIOS			
AS OF DATE	NET LOANS (THOUSANDS)	TOTAL DEPOSITS (THOUSANDS)	RATIO
12/31/09	154,610	230,287	67.1%
09/30/09	156,504	227,277	68.9%
06/30/09	155,317	223,505	69.5%
03/31/09	156,744	227,286	69.0%
12/31/08	154,960	218,276	71.0%
09/30/08	153,820	218,756	70.3%
06/30/08	154,315	215,447	71.6%
03/31/08	153,210	213,513	71.8%
Quarterly Loan-to-Deposit Ratio Average Since Previous Evaluation			69.9%

Source: The Uniform Bank Performance Report prepared by the FDIC for use by Federal regulators.

Assessment Area Concentration

An analysis of overall lending by Merchants Bank determined that a substantial majority of loans and other lending related activities is in the bank's assessment area. As the following table shows, 88% of the loans analyzed and 84% of the corresponding loan dollars outstanding are in the bank's assessment area.

Merchants Bank of Bangor Lending Inside and Outside the Assessment Area								
	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Home Improvement	83	91.2	\$3,690	91.5	8	8.8	\$342	8.5
Home Purchase	99	83.2	\$15,292	81.3	20	16.8	\$3,509	18.7
Multi-Family Housing	7	77.8	\$1,550	76.9	2	22.2	\$465	23.1
Refinancing	182	90.1	\$23,321	85.4	20	9.9	\$3,980	14.6
Total HMDA-related Loans	371	88.1	\$43,853	84.1	50	11.9	\$8,296	15.9
Sample of Small Business Loans	65	90.3	\$7,559	83.1	7	9.7	\$1,537	16.9
TOTAL LOANS ANALYZED	436	88.4	\$51,412	83.9	57	11.6	\$9,833	16.1

DISTRIBUTION OF LOANS BY BORROWER INCOME LEVEL AND REVENUE SIZE OF THE BUSINESS¹

Analyses of HMDA loan data and small business loan data were conducted in conjunction with a review of the demographic and economic characteristics of the assessment area to determine the level of lending to borrowers of different income levels and to businesses of different sizes.

The analyses reflect excellent penetration among borrowers of different income levels and businesses of different sizes.

¹ The information used to evaluate lending activity by Merchants Bank is detailed in the HMDA Loan Distribution Tables contained in the Appendix.

Lending to Borrowers of Different Income Levels

Overall, lending levels among low- and moderate-income borrowers are excellent in the context of assessment area demographics and in comparison to aggregate HMDA lending in the assessment area.

The percentage of low- and moderate-income families in the assessment area is used as a proxy to estimate demand for home mortgage lending in the assessment area. Of the home mortgage loans analyzed, 8% were extended to low-income borrowers, compared to 18% of the assessment area families categorized as low income. While the 8% lending level is considerably less than the applicable proxy of 18%, the bank's lending to low-income borrowers is good in the context of the assessment area's overall economic characteristics, particularly the assessment area's increased unemployment levels during 2009. Moreover, the bank's lending level among low-income borrowers is twice the aggregate HMDA lending level of 4% by all lenders in the assessment area, based on 2008 aggregate HMDA data.

The evaluation also takes into consideration challenges generally encountered by the assessment area's low-income individuals and families with respect to homeownership. Home mortgage credit needs of such individuals and families can be difficult to address through conventional mortgage loan products and even alternative mortgage products. The assessment area's comparatively high cost of housing significantly limits homeownership opportunities for both low- and moderate-income families. Based on data provided at Moody's Economy.com, the median existing home price in the bank's assessment area was \$181,300 during 2009. Also, more than one-third of the assessment area's renters expend more than 30% of their gross income for housing, making it difficult for renters, particularly low-income renters, to save the customary down payment and closing costs necessary to purchase a house.

With respect to home mortgage lending to moderate-income borrowers, Merchants Bank originated 21% of its mortgage loans to such borrowers, which is above the 19% proxy in relation to the assessment area's moderate-income population segment. Further, the bank's lending level to moderate-income borrowers exceeds the assessment area's aggregate HMDA lending level to moderate income borrowers of 20% during 2008.

The following table details the distribution of the bank's home mortgage loans by borrower income level.

MERCHANTS BANK OF BANGOR ASSESSMENT AREA DISTRIBUTION BY BORROWER INCOME LEVEL HOME MORTGAGE LOANS					
Geography	Number of Loans	Percent of Loans	Number of Families	Percent of Families	Percent of Loans / Percent of Families
Low-Income	31	8	12,531	18	0.44
Moderate-Income	78	21	13,776	19	1.11
Middle-Income	110	30	17,233	24	1.25
Upper-Income	139	38	27,967	39	0.97
Income Unknown	13	3	NA	NA	NA
All Borrowers	371	100%	71,507	100%	1.00

Lending to Businesses of Different Sizes

Lending by Merchants Bank, in the context of demographic and economic characteristics of the assessment area, reflects excellent penetration among businesses of different sizes.

For purposes of this evaluation, a small business loan is defined as a commercial loan with an origination amount of \$1 million or less. Schedule RC-C (Loans to Small Farms and Small Businesses) of the Consolidated Reports of Condition and Income reported by Merchants Bank as of June 30, 2009, shows that 92% of the bank's commercial loans were designated as small business loans, as detailed in the following table.

MERCHANTS BANK OF BANGOR COMMERCIAL LOAN PORTFOLIO		
	AMOUNT OUTSTANDING AS OF 06/30/2009 (\$000)	PERCENT
Loans with original amounts of \$100,000 or less	6,776	18
Loans with original amounts of more than \$100,000 through \$250,000	11,393	30
Loans with original amounts of more than \$250,000 through \$1,000,000	16,427	44
TOTAL SMALL BUSINESS LOANS	34,596	92
Loans with original amounts of more than \$1,000,000	3,192	8
TOTAL COMMERCIAL LOANS	37,788	100

The evaluation also analyzed a statistical sample of 72 small business loans originated by the bank during 2009 to identify those loans extended to small businesses, namely, businesses with gross annual revenues of \$1 million or less. According to 2008 business demographic data, 10,782 businesses operated in the assessment area, 89% of which were small businesses. Of the 72 small business loans sampled, 65 were extended to businesses operating in the assessment area in an aggregate amount of \$7.6 million. Most notably, all 65 loans were originated to small businesses. As a comparison, aggregate data for all lenders show that only 33% of all small business loans made in the assessment area in 2008 were extended to small businesses.

Furthermore, of the 65 small business loans originated, 71% were extended in an amount of \$100 thousand or less. Generally, smaller loans are commensurate with the borrowing needs of smaller businesses. The substantial volume of smaller loans originated by Merchants Bank demonstrates that its lending activities address the credit needs of small businesses.

Merchants Bank is also involved in qualified community development investments and services that support small business development in its assessment area, thereby enhancing the level and extent of the bank's small business lending. For additional discussion of the bank's community development activities, refer to the Community Development Test section of this Performance Evaluation, beginning on page 13.

GEOGRAPHIC DISTRIBUTION OF LENDING

Home Mortgage Lending

The percentage of owner-occupied housing units within a census tract is used as a proxy to estimate demand for residential mortgage lending in the tract. Generally, the lower the level of owner-occupied units within a census tract, the more limited the lending opportunities are in the tract.

HMDA lending in low- and moderate-income tracts by Merchants Bank is below applicable owner-occupied housing proxies and aggregate lending levels. However, it is deemed reasonable in the context of the assessment area’s economic characteristics and the substantial market presence by large and small banking organizations and mortgage companies within the assessment area.

During the evaluation period, several large financial institutions, including Countrywide Bank FSB, JP Morgan Chase, and Wells Fargo Bank, had a significant market presence in the assessment area. As noted on page 4, in terms of aggregate HMDA loan originations, Merchants Bank is not a major residential mortgage lender within the assessment area.

Merchants Bank originated 371 home mortgage loans in its assessment area in an aggregate amount of \$44 million. Only one percent of the assessment area’s owner-occupied housing units are located in low-income census tracts, and 11% are in moderate-income census tracts. None of the bank’s loans financed properties located in low-income census tracts, while eight percent financed properties in moderate-income tracts.

The following table details the geographic distribution of the bank’s loans within its assessment area.

MERCHANTS BANK OF BANGOR GEOGRAPHIC DISTRIBUTION HOME MORTGAGE LOANS					
Census Tract Income Level	Number of Loans	Percent of Loans	Number of Owner- Occupied Units	Percent of Owner- Occupied Units	Percent of Loans / Percent of Units
Low	0	0	1,142	1	0.00
Moderate	28	8	8,064	11	0.73
Middle	254	68	43,867	59	1.15
Upper	89	24	21,378	29	0.83
All Borrowers	371	100%	74,451	100%	1.00

Merchant Bank’s home mortgage lending was also compared to all HMDA lenders operating in the bank’s assessment area. Based on 2008 aggregate HMDA data, 12% of all home mortgage loans made in the assessment area were made in moderate-income census tracts, compared to the applicable owner-occupied housing unit proxy of 11%. In the low-income census tracts, both the market and proxy were at one percent. Details of the comparison to 2008 aggregate data are presented in the following table.

MERCHANTS BANK OF BANGOR MARKET COMPARISON GEOGRAPHIC DISTRIBUTION HOME MORTGAGE LOANS			
Census Tract Income Level	Merchants Bank Percent of Loans	Market Percent of Loans	Percent of Owner-Occupied Units
Low	0	1	1
Moderate	8	12	11
Middle	68	56	59
Upper	24	31	29
All Borrowers	100%	100%	100%

Small Business Lending

The geographic distribution of small business loans originated by Merchants Bank within the assessment area was evaluated as reasonable. The percentage of businesses located within designated census tracts is used as a proxy to estimate demand for small business credit within such census tracts.

Based on an analysis of the 65 small business loans sampled, the bank originated no loans to businesses in low-income tracts, while 11% of its loans financed businesses in moderate-income tracts. According to 2008 business demographics, three percent of small businesses in the assessment area operate in low-income census tracts, and 13% operate in moderate-income tracts. Most notably, a high percentage of the bank’s small business loans were made in the assessment area’s middle-income tracts (75% compared to the 57% of the assessment area’s businesses located in these tracts). Details of the bank’s lending by census tract type are presented in the following table.

MERCHANTS BANK OF BANGOR GEOGRAPHIC DISTRIBUTION SMALL BUSINESS LOANS					
Census Tract Income Level	Number of Loans	Percent of Loans	Number of Small Businesses	Percent of Small Businesses	Percent of Loans / Percent Small Businesses
Low	0	0	379	3	0.00
Moderate	7	11	1,395	13	0.85
Middle	49	75	6,143	57	1.32
Upper	9	14	2,865	27	0.52
Totals	65	100%	10,782	100%	1.00

The bank is challenged in lending to small businesses in low- and moderate-income census tracts, in that it competes with larger banking organizations with branch networks that have a greater density in or proximity to the assessment area’s low- and moderate-income tracts. Such organizations include National Penn Bank, Lafayette Ambassador Bank, Wachovia Bank, PNC, and Bank of America. Within Bethlehem alone, 12 banking organizations collectively operate 47 banking offices.

RESPONSE TO SUBSTANTIATED COMPLAINTS

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

Community Development Test

Performance by Merchants Bank under the Community Development test is assessed as satisfactory.

The bank's community development performance demonstrates adequate responsiveness to the community development needs of the assessment area through community development loans, qualified investments, and community development services.

Community Development Loans

Merchants Bank originated 10 community development loans totaling \$2.3 million during the evaluation period. Nine of the loans were made to real estate developers and investors for the purchase, refinance, or improvement of multi-family dwellings, comprising residential units, located in low- and moderate-income census tracts.

Such multi-family dwellings provide affordable rental housing alternatives to low- and moderate-income families and households in an area where the cost of housing is comparatively high. In addition, loans to renovate existing multi-family housing help stabilize the low- and moderate-income neighborhoods in which they exist.

Merchants Bank also participated in a \$4.0 million loan to a nonprofit organization for the revitalization of the former Bethlehem Steel plant, a vacant industrial site located in the city of Bethlehem. The 4.5 acre site is being developed into a multi-purpose arts and cultural center to serve as a catalyst for economic development in Bethlehem. Originated through the Lehigh Valley Economic Development Corporation Regional Loan Pool, the loan has 12 participants, including 11 commercial banks and Lehigh University. The bank's loan participation amount is \$88 thousand.

Community Development Investments

Merchants Bank made grants and contributions to various organizations that routinely provide affordable housing, economic development, and community development services that benefit low- and moderate-income individuals and census tracts. During the period evaluated, the bank made \$48 thousand in qualified grants and donations that benefit its assessment area. Of this amount, 98% supports the provision of community development services, and 2% supports affordable housing initiatives in the assessment area.

Community Development Services

Officers and employees of Merchants Bank serve in various capacities on the boards of numerous community development organizations and provide technical expertise through participation on finance and fundraising committees of such organizations.

Organizations in which the bank's employees provide support include:

Bangor Community Partnership
Easton Area Industrial Land Development Company
Lehigh Valley Economic Development Corporation
Northampton County New Jobs Corporation
Slate Belt Economic Development Committee

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES

The evaluation found no evidence of discriminatory or other illegal credit practices inconsistent with addressing community credit needs.

CRA APPENDICES

CRA APPENDIX A: GLOSSARY

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Block numbering area (“BNA”): A statistical subdivision of a county for grouping and numbering blocks in nonmetropolitan counties where local census statistical area committees have not established census tracts. A BNA does not cross county lines.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

Full review: Performance under the lending, investment and service tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, innovativeness, complexity and responsiveness).

Geography: A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as race, gender and income of applications, amount of loan requested, and disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited review: Performance under the lending, investment and service tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (“MA”): Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”) or consolidated metropolitan statistical area (“CMSA”) as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multi-state metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan area, the institution will receive a rating for the multi-state metropolitan area.

Small loan(s) to business(es): A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income ("Call Report") and the Thrift Financial Reporting ("TFR") instructions. These loans have original amounts of \$1 million or less and typically are either secured by non-farm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by non-farm residential real estate as "small business loans" if the loans are reported on the TFR as non-mortgage, commercial loans.

Small loan(s) to farm(s): A loan included in "loans to small farms" as defined in the instructions for preparation of the Call Report. These loans have original amounts of \$500 thousand or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

CRA APPENDIX B: HMDA LOAN DISTRIBUTION TABLES

HMDA LOAN DISTRIBUTION TABLE

Income Categories	HMDA							
	By Tract Income				By Borrower Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
	Home Purchase							
Low	0	0.0%	0	0.0%	4	4.0%	324	2.1%
Moderate	10	10.1%	833	5.4%	26	26.3%	3,048	19.9%
Middle	65	65.7%	9,805	64.1%	31	31.3%	4,530	29.6%
Upper	24	24.2%	4,654	30.4%	36	36.4%	7,251	47.4%
Unknown	0	0.0%	0	0.0%	2	2.0%	139	0.9%
Total	99	100.0%	15,292	100.0%	99	100.0%	15,292	100.0%
	Refinance							
Low	0	0.0%	0	0.0%	20	11.0%	1,112	4.8%
Moderate	14	7.7%	1,317	5.6%	34	18.7%	3,449	14.8%
Middle	116	63.7%	14,189	60.8%	53	29.1%	6,622	28.4%
Upper	52	28.6%	7,815	33.5%	70	38.5%	11,665	50.0%
Unknown	0	0.0%	0	0.0%	5	2.7%	473	2.0%
Total	182	100.0%	23,321	100.0%	182	100.0%	23,321	100.0%
	Home Improvement							
Low	0	0.0%	0	0.0%	7	8.4%	202	5.5%
Moderate	1	1.2%	7	0.2%	18	21.7%	928	25.1%
Middle	70	84.3%	2,962	80.3%	25	30.1%	975	26.4%
Upper	12	14.5%	721	19.5%	31	37.3%	1,550	42.0%
Unknown	0	0.0%	0	0.0%	2	2.4%	35	0.9%
Total	83	100.0%	3,690	100.0%	83	100.0%	3,690	100.0%
	Multi-Family							
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	3	42.9%	728	47.0%	0	0.0%	0	0.0%
Middle	3	42.9%	597	38.5%	1	14.3%	225	14.5%
Upper	1	14.3%	225	14.5%	2	28.6%	380	24.5%
Unknown	0	0.0%	0	0.0%	4	57.1%	945	61.0%
Total	7	100.0%	1,550	100.0%	7	100.0%	1,550	100.0%
	HMDA Totals							
Low	0	0.0%	0	0.0%	31	8.4%	1,638	3.7%
Moderate	28	7.5%	2,885	6.6%	78	21.0%	7,425	16.9%
Middle	254	68.5%	27,553	62.8%	110	29.6%	12,352	28.2%
Upper	89	24.0%	13,415	30.6%	139	37.5%	20,846	47.5%
Unknown	0	0.0%	0	0.0%	13	3.5%	1,592	3.6%
Total	371	100.0%	43,853	100.0%	371	100.0%	43,853	100.0%

SMALL BUSINESS LOAN DISTRIBUTION TABLE

	SMALL BUSINESS				SMALL FARM			
	#	%	\$(000s)	%	#	%	\$(000s)	%
By Tract Income								
Low	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Moderate	7	10.8%	1,013	13.4%	0	0.0%	0	0.0%
Middle	49	75.4%	5,397	71.4%	0	0.0%	0	0.0%
Upper	9	13.8%	1,149	15.2%	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	65	100.0%	7,559	100.0%	0	0.0%	0	0.0%
By Revenue								
Total \$1 Million or Less	65	100.0%	7,559	100.0%	0	0.0%	0	0.0%
Over \$1 Million	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Not Known	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	65	100.0%	7,559	100.0%	0	0.0%	0	0.0%
By Loan Size								
\$100,000 or less	46	70.8%	1,859	24.6%	0	0.0%	0	0.0%
\$100,001 - \$250,000	11	16.9%	2,099	27.8%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	8	12.3%	3,601	47.6%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	65	100.0%	7,559	100.0%	0	0.0%	0	0.0%
By Loan Size and Revenue \$1 Million or Less								
\$100,000 or less	46	70.8%	1,859	24.6%	0	0.0%	0	0.0%
\$100,001 - \$250,000	11	16.9%	2,099	27.8%	0	0.0%	0	0.0%
\$250,001 - \$1 Million (Bus)-\$500k (Farm)	8	12.3%	3,601	47.6%	0	0.0%	0	0.0%
Over \$1 Million (Bus)-\$500k (Farm)	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Total	65	100.0%	7,559	100.0%	0	0.0%	0	0.0%

CRA APPENDIX C: ASSESSMENT AREA MAP

