



SMALL BANK

Comptroller of the Currency
Administrator of National Banks
Washington, DC 20219

PUBLIC DISCLOSURE

May 10, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Hope Bank, A National Banking Association
Charter Number 10118**

**1301 Hope Bridgeville Road
Hope, NJ 07844**

**Comptroller of the Currency
New York Metro-New Jersey-West
830 Morris Turnpike Second Floor
Short Hills, NJ 07078**

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

DEFINITIONS AND COMMON ABBREVIATIONS

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Community Development (CD) - Affordable 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.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography - A census tract or a block numbering area delineated by the United States 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 such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

Low-Income - Income levels that are less than 50% of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120% or more of the MFI.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **First Hope Bank, A National Banking Association, Hope, New Jersey ("FHB")** as prepared by **The Office of the Comptroller of the Currency ("OCC")**, the institution's supervisory agency, as of **May 10, 2004**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory".

The primary factors supporting the overall rating are:

- First Hope Bank's average loan-to-deposit (LTD) ratio for the evaluation period is considered good in light of the bank's size, competition, and market loan demand.
- A large majority of the bank's loans is made within the bank's assessment area.
- The distribution of lending among borrowers reflects a reasonable penetration of loans to small businesses and to individuals of different income levels.

DESCRIPTION OF INSTITUTION

First Hope Bank, A National Banking Association (FHB) is a \$273 million family owned intrastate community bank headquartered in Hope, Warren County, New Jersey. FHB is an independently owned bank with one operating subsidiary, First Hope Invescorp, which administers some of the bank's investment holdings. The bank's capacity for community reinvestment is not impacted by the activities of its subsidiary. Furthermore, there are no financial or legal obstacles that would impede FHB's ability to help meet the credit needs of its assessment area (AA). The bank conducts its banking operations from five locations within its AA, each offering a full range of financial services to its customers. Supplementing these traditional banking products and services are a complete range of investment and fiduciary services offered by the bank's Investment and Trust Management Division.

The primary area served by the bank is essentially rural in nature, located in the Warren, Sussex and Morris Counties of northwestern New Jersey. The main office of the bank is located in

Hope while the four other branches are dispersed in the neighboring townships of Blairstown, Great Meadows, Hackettstown and Sparta. Branches falling within Warren County are Hope, Blairstown, and Great Meadows; the Sparta office is located in Sussex County and the Hackettstown branch is in Morris County, just beyond the Warren County line. FHB also operates three stand-alone cash dispensing automatic teller machines (ATMs); one in Blairstown and two in Knowlton Township.

FHB's primary business focus is residential real estate lending. As of March 31, 2004, the bank reported total assets of \$273 million that is primarily supported by \$164 million in loans and \$83 million in investments. The bank's loan portfolio mix, based on the most recent Call Report information, is distributed as follows:

Loan Type	Dollar Amount \$(000)	% of Total \$ Amount
RE Residential (1-4 family)	\$96,431	63
RE Commercial	\$44,911	29
Commercial and Industrial	\$9,265	6
Consumer	\$2,286	2
Total	\$152,893	100

The bank's primary real estate lending activity is concentrated in home improvement and refinance loans. The following table depicts the number, percentage and dollar volume of HMDA related loans originated or purchased over the evaluation period.

Loans Originated / Purchased in AA			
Loan Purpose & Type	Count	Percentage	\$000's
Purchase-Conventional	25	4	\$3,554
Home Improvement	316	52	\$10,483
Refinance	263	43	\$21,194
Multi-Family	2	1	\$928
Total	606	100	\$36,159

Source: HMDA data and internal bank records

The bank's CRA performance was rated "Satisfactory" at its last examination on March 22, 1999.

Competition within FHB's AA is aggressive as numerous branches of national, regional and statewide banks all compete for the same local customer base. Local savings banks and credit unions are also among FHB's competitors in its community. As of June 30, 2003 FDIC Summary of Deposit data, FHB own 2% of the market share of total deposits in Warren, Sussex and Morris Counties. However, larger institutions, such as Fleet, Wachovia, PNC, JPMorgan Chase and Hudson City Savings Bank, collectively hold 48%, dominating the market share of deposits in FHB's AA. FHB ranks 17th out of 41 FDIC-insured financial institutions having a market presence within the area.

DESCRIPTION OF THE ASSESSMENT AREA (AA)

The bank's assessment area consists of portions of the Warren, Sussex, and Morris Counties of New Jersey, all falling within the Newark Metropolitan Statistical Area (MSA) 5640. The area is contiguous and consists of 26 (70%) middle-income census tracts, 10 (27%) upper-income census tracts and 1 (3%) non-income related tract, The Delaware Water Gap National Recreational Area. No low- or moderate-income census tracts were identified within FHB's AA. The AA complies with the requirements of the regulation and does not arbitrarily exclude low- or moderate-income areas.

The 1990 census median family income, which is used to categorize the income level of the census tracts in the MSA, is \$50,047. The HUD updated 2002 median family income is \$78,700. Specific income classification categories are listed in Table 1. Based on our analysis of the bank's AA, 12% of the families are defined as low income, 18% as moderate, 28% as middle and 42% as upper. Tables 1a & 1b provide the various breakdowns of families by income level and tracts in the bank's AA.

Table 1 - Income Categories			
Low	Moderate	Middle	Upper
Below \$39,350	\$39,350-\$62,952	\$62,953-\$94,432	Above \$94,432

Table 1a – Percentage of Families by Income Level of Tract								
Total Families	Low Income		Moderate Income		Middle Income		Upper Income	
	Count	%	Count	%	Count	%	Count	%
Middle Income	4,476	84	6,370	82	9,446	75	10,231	55
Upper Income	879	16	1,421	18	3,162	25	8,498	45
Total	5,355	100	7,791	100	12,608	100	18,729	100

* No low- or moderate-income areas were identified within the bank's assessment area.
Source: 1990 US Census

Table 1b - Percentage of Families Within Each Tract Category					
Population	Families				
	Low Income	Moderate Income	Middle Income	Upper Income	Total
Middle Income Tracts	15	21	31	33	100
Upper Income Tracts	6	10	23	61	100
Total	12	18	28	42	100

* No low- or moderate-income areas were identified within the bank's assessment area.
Source: 1990 US Census

According to the 1990 U.S. census information, FHB's AA includes 37 census tracts with an overall population total of 163,834. Within these census tracts, 62,453 housing units were identified in the bank's AA, and, of these units, 68% are owner occupied units and 83% are 1-4 family units. The vacancy rate is 7%. About 71% of the households, or equivalently 41,171 homes, live within the 27 middle-income census tracts. Of the total number of households

within the AA, 4%, or 2,274 households, live at or below the poverty level. The median housing value of owner occupied units is \$173,375 and the median age of the homes is typically 39 years.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Examination

This CRA evaluation of First Hope Bank, A National Banking Association covers the period from January 1, 1999 to December 31, 2002. Our review covered all commercial loans as well as all mortgage related loans originated during this period. These have been identified as the primary lending products extended by the bank. The commercial loan data was derived from management reports and a limited verification of the data was performed during this review.

Community Contact

During this examination, we had held discussions with two local community groups to help us determine the community credit and development needs in the bank's AA. These groups are primarily dedicated to providing housing development, child-care services, counseling, utility assistance and outreach programs to low- income people in the surrounding communities. Credit needs of the community are determined by an annual evaluation in conjunction with local governments. Poverty studies are conducted every five years. The groups have identified the availability of affordable housing and funding home loans for first time homeowners as the primary credit needs of the community.

Loan-to-Deposit Ratio

- First Hope Bank's loan to deposit (LTD) meets the standard for satisfactory performance given the bank's size, financial condition, and assessment area credit needs.

The bank's average loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition and the credit needs in its assessment area. In the 20 quarters since our March 22, 1999 CRA examination, the bank has averaged an LTD ratio of 61%, ranging from an actual high of 67% on December 31, 2002 to a low of 55% on December 31, 2000. When compared to their customized peer group of well-established institutions (identified by similar asset size and within its assessment area), FHB performed slightly below the customized peer average of 64%. Residential home purchase loans originated by the bank are typically packaged and sold into the secondary market; thus, these loans are not included in the overall average LTD calculation.

Lending in Assessment Area

- FHB meets the standard for satisfactory performance for lending within the assessment area.

As depicted in the table below, 74% of all loans generated by the bank were originated within the bank's assessment area. From January 1, 1999 to December 31, 2002, the bank had

originated a total of 773 of Home Mortgage Disclosure Act (HMDA) reportable loans with an aggregate dollar volume of \$58.1 million. Within this category of loans, 78% of the loans were originated within the bank's AA. For small business loans, 66% were made within the bank's AA.

Table 2 – Loan Originations \$(000's)			
	Total # / \$ of Loans Originated	# / \$ of Loans Originated in AA	% # / % \$ of Loans Originated in AA
HMDA Loans	773 / \$58,100	606 / \$36,159	78% / 62%
Small Business Loans	407 / \$65,361	269 / \$36,350	66% / 56%
Total	1,180 / \$123,461	875 / \$72,509	74% / 59%

Source: 1990 US Census

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

- The bank's record of lending to borrowers of different income levels and to businesses of different sizes meets the standards for satisfactory performance.

Table 3 – Borrower Distribution of HMDA Reported Loans					
Borrower Income Level	# of Loans	%	\$ Amount (000's)	%	% of Families at Income Level in AA
Low	41	7	\$1,241	3	12
Moderate	107	18	\$4,135	11	18
Middle	195	32	\$9,988	28	28
Upper	248	40	\$19,292	53	42
Not Available	15	2	\$1,503	4	
Total	606	100	\$36,159	100	100

Source: Internal bank records and 1990 US Census

As Table 3 shows, lending to borrowers of moderate-income levels are generally in line with their percentage population. A noted exception is in the bank's lending performance to low-income borrowers. For home purchase loans, low-income borrowers earning less than \$39,350 per annum face significant barriers and/or hardships in qualifying for a mortgage that is based on a median housing value of \$173,375. Improved performance is further stifled by the competitive market for these types of loans given a lower rate environment during the evaluation period.

Table 3a – Borrower Distribution of Loans to Businesses		
Business Revenues (or Sales)	Less than or equal to \$1,000,000	Greater than \$1,000,000
% of AA Businesses *	85	7
% of Bank Loans in AA by #	79	21
% of Bank Loans in AA by \$	73	27

*12 % of AA businesses did not report revenue data.

Source: Dunn and Bradstreet data and internal bank records

Table 3a gives the breakdown of loans to businesses by revenue. It shows that the bank has a good penetration of loans to businesses within its AA. To further substantiate our assessment,

Table 3b provides the breakdown of loans to businesses by loan size. Over the evaluation period, the bank had originated 213 commercial loans to businesses with revenues of \$1 million or less, representing 79% of all commercial loans made within the bank’s assessment area. This aggregate loan number equates to a loan dollar volume of \$26,409, or 73% of all commercial loans with the AA. Given the bank’s performance, the overall distribution of commercial loans to various business sizes is considered reasonable since 81% of the businesses within the AA reported revenues of \$1 million or less. And as indicated below by a further breakdown of commercial loans within the bank’s AA, 66% of the small business loans were made to smaller businesses with revenues of less than \$100,000.

Table 3b – Borrower Distribution of Loans to Businesses by Loan Size				
Loan Size	# of Loans	% of Number	\$ Volume of Loans (000’s)	% of \$ Volume of Loans
\$0 - \$100,000	141	66	\$5,210	20
\$100,001 - \$250,000	35	17	\$5,484	21
\$250,001 - \$1,000,000	37	17	\$15,715	59
Total	213	100	\$26,409	100

Source: Internal bank records and 1990 US Census

Geographic Distribution of Loans

An analysis of the geographic distribution is not meaningful as there are no low- or moderate-income census tracts in the bank’s assessment area.

Responses to Complaints

First Hope Bank has not received any CRA related complaints covering the review period with respect to its performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.