



PUBLIC DISCLOSURE

March 24, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First Hope Bank, A National Banking Association
Charter Number 10118

1301 Hope-Bridgeville Road
Hope, NJ 07844

Office of the Comptroller of the Currency

New York Metro Field Office
343 Thornall Street, Suite 610
Edison, NJ 08837

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.

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

The Lending Test is rated: Satisfactory.

The Community Development Test is rated: Satisfactory.

The primary factors supporting First Hope Bank's (FHB) rating are:

- FHB's loan-to-deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance relative to the size of the institution, financial condition of the institution, assessment areas' (AAs) credit needs, and competition.
- A majority of FHB's loans were originated inside the AAs.
- The borrower distribution of loans indicates reasonable penetration and meets the standard for satisfactory performance in spite of the AAs' demographic comparisons.
- The geographic distribution of home loans reflects a reasonable dispersion among census tracts of different income levels and meets the standard for satisfactory performance.
- FHB's performance in meeting community development (CD) needs through CD loans, services, and qualified investments originated and offered in the Warren and Morris-Sussex AAs reflects adequate responsiveness.
- FHB did not receive any Community Reinvestment Act (CRA) related complaints since the previous CRA examination.

Scope of Examination

FHB's CRA performance was evaluated using the Intermediate Small Bank examination procedures, which includes the lending test and the bank's performance in the CD test. The lending test evaluates the bank's record of meeting the credit needs of its AAs through its lending activities. All home mortgage data was considered, including originations made by both FHB and First Hope Mortgages (FHM), the mortgage subsidiary. The lending test covers home mortgage loan data from January 1, 2011 to December 31, 2013. The assessment period for CD loans, investments, and services is from January 4, 2011 to March 24, 2014.

In our evaluation of lending, we evaluated two periods separately, 2011, and 2012 to 2013. The separation is due to the difference in census information used for each period. The 2000 U.S. Census information was used for the 2011 period, and the 2010 U.S. Census information was used for the 2012 to 2013 period. The lending tables for both periods are included within this Performance Evaluation.

Management's primary loan products are home mortgage loans from FHB and FHM, as illustrated by Table A on the next page, which is consistent with its business strategy. Home mortgage loan products include: home purchase, home improvement, and home refinance loans.

Management appropriately reports home mortgage loan data under the Home Mortgage Disclosure Act (HMDA). The OCC Data Integrity examination prior to this examination determined the HMDA-LAR data from 2011 to 2013 to be accurate and reliable. CD loans, investments, and services submitted by senior management were also verified to ensure each met the regulatory definition. Business, consumer, and farm loans were excluded from this review because they are not considered a primary loan product. *Refer to Table A below for additional information.*

Table A

	% by Dollars of Loans Originated during the Evaluation Period	% by Number of Loans Originated during the Evaluation Period
Home Loans	88.21%	84.65%
Business Loans	11.79%	15.35%
Consumer Loans	0.00%	0.00%
Farm Loans	0.00%	0.00%
Total	100%	100%

Description of Institution

FHB is a \$442 million national bank with its main office located in Hope, NJ. FHB is independently owned by First Hope Bancorp. The bank has two operating subsidiaries, First Hope Invescorp and FHM. First Hope Invescorp manages portions of the bank's investment holdings. FHM, which began in 2011, originates and sells mortgages to investors. FHB's strategy is to continue as an independent community bank providing a complete set of financial services. The financial condition and activities of subsidiaries do not adversely affect FHB's ability to meet the credit needs of its community. The previous CRA examination, completed on January 4, 2011, concluded with an overall "Satisfactory" rating.

FHB operates six branches and automated teller machines (ATMs) in Sussex, Morris, and Warren Counties, New Jersey. The Sparta and Andover branches are located within Sussex County, the Hackettstown branch is located within Morris County, and the Hope, Blairstown, and Great Meadows branches are located within Warren County. There is a stand-alone automated teller machine in Blairstown, New Jersey.

Management offers traditional retail deposit accounts, consumer and residential loans, commercial loan products, as well as an array of investment and fiduciary services through the Investment and Trust Division. In addition, management offers specialized deposit products, which are the Interest on Lawyers Trust Account (IOLTA) program and the Northwest New Jersey Community Action Partnership (NORWESCAP) Individual Development Account (IDA) program. The IOLTA program receives deposits from local law firm clients and pools them into interest bearing accounts maintained by law firms. The interest proceeds are automatically paid to the IOLTA Fund of the BAR of New Jersey to support law-related charitable purposes. The NORWESCAP's IDA program is a matched savings account for income eligible people to help achieve financial goals. These goals include home purchase, education and training, small business capitalization, and expansion or transportation necessary for self-sufficiency.

The competition for loans and deposits within FHB's two AAs is aggressive. Management identified Sussex Bank, Fulton Bank of New Jersey, Lakeland Bank, Highlands Bank, PNC, and TD North as its primary competitors. FHB deposits accounted for 1.37 percent of the market share and mortgage loans accounted for 0.32 percent of the market share in 2012.

Description of Assessment Areas

Management operates in two designated AAs, Morris-Sussex Counties and Warren County, for the purpose of CRA. Credit and CD needs in the AAs are primarily centered in supporting home ownership for local individuals, helping businesses create and maintain permanent jobs in the community, and providing community services to low to moderate-income individuals. The Morris-Sussex Counties AA includes a portion of the Newark-Union, NJ-PA Metropolitan Division and consists of Sussex County in its entirety and the western portion of Morris County. The Warren County AA spans a portion of the Allentown-Bethlehem-Easton, PA-NJ MSA and consists of Warren County in its entirety. Management revised its AAs in 2012 due to its courier service, which was used to collect deposits from businesses. The service was initially targeted for service in Morris and Sussex counties; however, minimal clients were generated in Morris County, which led to the decision to decrease census tracts in this AA. During the evaluation period, senior management removed 79 census tracts from the Morris-Sussex Counties AA and one census tract (Northampton County) from the Warren County AA due to low volume. The revised AA meets the technical requirements of the CRA regulation.

The unemployment rate slightly increased for both AAs from the 2000 U.S. Census to the 2010 U.S. Census. The unemployment rate for the Morris-Sussex Counties AA and Warren County AA increased from 1.81 percent to 3.71 percent and from 2.00 percent to 3.56 percent, respectively. These compare favorably to the U.S. unemployment rates of 8.5 percent in December 2011 and 6.7 percent in December 2013.

As part of our CRA examination, we contacted two local community organizations to discuss local economic conditions, community needs, and the level of participation of financial institutions within the AAs. The organizations serve low-income families within the AAs. According to our community contacts, employers are leaving the community for Pennsylvania and other surrounding areas due to relocation incentives, which negatively impacts the local economy. Both contacts cited employment as one of the primary priorities of the community. They also stated that financial institutions adequately meet the credit needs of the community and are actively involved in the community. Credit opportunities are primarily centered in supporting sustainable permanent housing.

The Morris-Sussex Assessment Area

According to the 2000 U.S. Census, the Morris-Sussex Counties AA consists of 58 census tracts in Sussex and Morris Counties, New Jersey. The AA is located in the Newark-Union NJ Metropolitan Statistical Area (MSA 35084). The geographic census tracts are distributed as follows: zero in low-income, five in moderate-income (8.62 percent), 36 in middle-income (62.07 percent), and 17 in upper-income (29.31 percent) levels. The population amounts to

228,216, which accounts for zero percent low-income, 6.44 percent moderate-income, 60.78 percent middle-income, and 32.78 percent upper-income levels. *Refer to the Table below for additional information.*

The major industries in Morris-Sussex Counties are health care, retail trade, and manufacturing. Major employers in the AA are Novartis, Picatinny Arsenal, Atlantic Health, Crystal Springs Golf and Spa Resort, and Newton Memorial Hospital.

There are three branches operating in the Morris-Sussex Counties AA. The Sparta and Andover branches are located within Sussex County and the Hackettstown branch is in Morris County.

2011 - Hope MSA 35084

Demographic Information for Full Scope Area: 2011 - Hope MSA 35084						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	58	0.00	8.62	62.07	29.31	0.00
Population by Geography	228,216	0.00	6.44	60.78	32.78	0.00
Owner-Occupied Housing by Geography	64,973	0.00	5.13	60.72	34.14	0.00
Business by Geography	21,944	0.00	6.43	56.75	36.82	0.00
Farms by Geography	873	0.00	5.15	60.48	34.36	0.00
Family Distribution by Income Level	61,853	12.33	17.01	25.36	45.30	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	18,144	0.00	11.14	67.99	20.87	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		68,424 90,600 4%	Median Housing Value Unemployment Rate (2000 U.S. Census)		179,328 1.81%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 U.S. Census and 2011 HUD updated MFI

The 2010 U.S. Census data reflects a change in the Morris-Sussex Counties AA. There are now 59 census tracts in Sussex and Morris Counties, New Jersey. The previous census tract, 3715.00 in Vernon Sussex County, was split into two separate tracts, 3715.02 and 3715.03, under the new 2010 U.S. Census data. Income levels also shifted towards the upper-income category. The low-income and middle-income geographic tracts remained the same while moderate-income tracts reduced to three (5.08 percent) and upper-income tracts increased to 20 (33.90 percent). The population slightly increased to 248,835 and reflects no change in low-income. The moderate-income population reduced to 4 percent, the middle-income population reduced to 56.37 percent, and the upper-income population increased to 39.64 percent. *Refer to the Table on the following page for additional information.*

2013- Hope- MSA 35084

Demographic Information for Full Scope Area: 2013 -CRA Exam - MSA 35084						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	59	0.00	5.08	61.02	33.90	0.00
Population by Geography	248,835	0.00	4.00	56.37	39.64	0.00
Owner-Occupied Housing by Geography	75,506	0.00	2.81	56.81	40.38	0.00
Business by Geography	20,042	0.00	3.94	53.04	43.02	0.00
Farms by Geography	896	0.00	3.24	59.15	37.61	0.00
Family Distribution by Income Level	68,895	13.19	16.17	24.66	45.98	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	20,224	0.00	6.91	66.06	27.04	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		87,598 90,100 5%		Median Housing Value Unemployment Rate (2010 U.S. Census)		354,284 3.71%

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2013 HUD updated MFI

The Warren County Assessment Area

According to the 2000 U.S. Census, the Warren County AA consists of 23 census tracts. The AA is located in the Allentown-Bethlehem-Easton, PA-NJ Metropolitan Statistical Area (MSA 10900). The geographic census tracts are distributed as zero in low-income, one in moderate-income (4.35 percent), 10 in middle-income (43.48 percent), and 12 in upper-income (52.17 percent) levels. The population amounts to 102,437, according to the 2000 U.S. Census data. This accounts for zero percent low-income, 2.88 percent moderate-income, 38.14 percent middle-income, and 58.98 percent upper-income levels. *Refer to the Table on the following page for additional information.*

There are three branches operating in the Warren County AA located in Hope, Blairstown, and Great Meadows, NJ.

2011- Hope MSA 10900

Demographic Information for Full Scope Area: 2011 - Hope MSA 10900						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	23	0.00	4.35	43.48	52.17	0.00
Population by Geography	102,437	0.00	2.88	38.14	58.98	0.00
Owner-Occupied Housing by Geography	28,136	0.00	2.15	33.80	64.05	0.00
Business by Geography	9,321	0.00	1.93	33.24	64.83	0.00
Farms by Geography	487	0.00	0.62	20.53	78.85	0.00
Family Distribution by Income Level	27,602	12.10	13.72	22.60	51.59	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,126	0.00	5.71	48.79	45.50	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		53,852 72,300 6%	Median Housing Value Unemployment Rate (2000 U.S. Census)		154,556 2.00%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2000 U.S. Census and 2011 HUD updated MFI

According to the 2010 U.S. Census data, the Warren County AA census tracts remained relatively stable and reflects a one-census tract decrease to 22 census tracts. The Northampton County, PA census tract was removed due to low volume of business from that particular census tract. The level of low-income and upper-income census tracts remained the same while the level of moderate-income tracts increased to three (13.64 percent) and middle-income tracts reduced to seven (31.82 percent). The total population, as of 2013, remained relatively stable at 103,980; however, population levels shifted towards the moderate-income over the two-year period. While there were no changes in the low-income population, moderate-income levels increased to 11.59 percent, middle-income reduced to 26.28 percent, and upper-level increased to 62.14 percent. *Refer to the Table on the following page for additional information.*

2013 Hope CRA- MSA 10900

Demographic Information for Full Scope Area: 2013 Hope CRA- MSA 10900						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	22	0.00	13.64	31.82	54.55	0.00
Population by Geography	102,980	0.00	11.59	26.28	62.14	0.00
Owner-Occupied Housing by Geography	29,905	0.00	8.33	25.66	66.00	0.00
Business by Geography	7,923	0.00	8.43	26.53	65.04	0.00
Farms by Geography	462	0.00	2.16	15.80	82.03	0.00
Family Distribution by Income Level	28,228	14.37	13.51	20.82	51.29	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	7,871	0.00	23.40	30.86	45.74	0.00
Median Family Income HUD Adjusted Median Family Income for 2013 Households Below Poverty Level		68,935 71,400 7%	Median Housing Value Unemployment Rate (2010 U.S. Census)		295,277 3.56%	

(*) The NA category consists of geographies that have not been assigned an income classification.
Source: 2010 U.S. Census and 2013 HUD updated MFI

Conclusions with Respect to Performance Tests

LENDING TEST

The bank’s performance under the lending test in the Morris-Sussex Counties and Warren County AAs is rated “Satisfactory”. FHB’s quarterly average net loan-to-deposit ratio is reasonable and a majority of FHB’s loans were originated within the bank’s AAs. The distribution of loans reflects reasonable penetration among borrowers of different incomes and businesses of different sizes. The geographic distribution of loans reflects reasonable dispersion among geographies of different incomes.

Loan-to-Deposit Ratio (LTD)

FHB’s LTD ratio is reasonable and meets the standard for satisfactory performance. The bank's average quarterly LTD ratio over the past 12 quarters was 83 percent. This exceeded the 75 percent LTD average for its national peer group during the same period. In a customized peer group of banks in the AAs, the bank’s LTD average exceeded the 80 percent LTD average for the sample of six banks that compete in the AAs. Amongst the six institutions, the lowest LTD average in the past 12 quarters was 53.71 percent and the highest LTD average was 91 percent.

Lending in Assessment Area

FNB’s record of lending in the AAs meets the standard for satisfactory performance. FHB originated a majority of its loans inside the AAs. As shown in Table 1, FHB originated 79 percent of the number of loans and 60 percent of the dollar amount inside the AAs during the

evaluation period. This result was based on small business loans and home loans, consisting of home purchase, home improvement, and home mortgage refinance.

Table 1 Lending in Morris-Sussex Counties & Warren County Assessment Areas										
Type of Loan	Number of Loans					Dollars of Loans (000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Total Home Loans	307	78%	85	22%	392	\$43,511	60%	\$29,285	40%	\$72,796
Total Small Business Loans	86	79.63%	22	20.37%	108	\$11,201	58.65%	\$7,897	41.35%	\$19,098
Total Home and Small Business Loans	393	78.60%	107	21.40%	500	\$54,712	59.54%	\$37,182	40.46%	\$91,894

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

The distribution of loans to borrowers of different incomes is reasonable and meets the standard for satisfactory performance. Home mortgage lending reflects reasonable penetration.

Morris-Sussex Assessment Area

The overall borrower distribution for the Morris–Sussex Counties AA is reasonable according to 2000 and 2010 U.S. Census demographic data. This is based on reasonable penetration of home mortgage loans among borrowers of different income levels. *Refer to Tables 2A and 2B for additional information.*

The borrower distribution for home purchase loans reflects reasonable penetration of home mortgage loans among families of different levels. The percentage of home purchase loans made to low-income families is lower than the ratio of low-income families in the AA for both 2000 and 2010 U.S. Census data. However, the percentage of home purchase loans made to moderate-income families exceeds the ratio of moderate-income families in the AA for both 2000 and 2010 U.S. Census data. Based on 2000 U.S. Census data and 2011 HMDA data, the percentage of home purchase loans made to moderate-income families was 41.18 percent compared to 17.01 percent of moderate-income families in the AA. Using 2010 U.S. Census data and 2012-2013 HMDA data, the percentage of home purchase loans made to moderate-income families was 24.32 percent compared to 16.17 percent of moderate-income families in the AA.

The borrower distribution for home improvement loans reflects reasonable penetration of home mortgage loans among families of different levels. Based on 2000 U.S. Census data and 2011 HMDA data, no home improvement loans were made to low-income families; however, the percentage of home improvement loans made to low-income families, using 2010 U.S. Census data and 2012-2013 HMDA data, is near the ratio of 13.19 percent for low-income families in the AA at 13.33 percent. Using 2000 U.S. Census data and 2011 HMDA data, home improvement loans made to moderate-income families was 50 percent, which exceeded the ratio

of 17.01 percent of moderate-income families in the AA. However, based on 2010 U.S. Census data and 2012-2013 HMDA data, home improvement loans made to moderate-income families was lower at 6.67 percent than the level of moderate-income families in the AA at 16.17 percent.

The borrower distribution for home refinance loans reflects reasonable penetration of home mortgage loans among families of different levels. More weight was placed on the level of home mortgage loans to moderate-income families as more loans were made to moderate-income families. There are 12.33 percent of low-income families in the AA compared to 17.01 percent of moderate-income families in the AA according to 2000 data; and 13.19 percent of low-income families compared to 16.17 percent of moderate-income families. The percentage of home mortgage refinance loans made to low-income borrowers is significantly lower than the ratio of low-income families in the AA for both 2000 and 2010 U.S. Census data. Based on 2000 U.S. Census data and 2011 HMDA data, the percentage of home mortgage refinance loans made to low-income borrowers is 4.35 percent compared to 12.33 percent of low-income families in the AA. Based on 2010 U.S. Census data and 2012–2013 HMDA data, the percentage of home mortgage refinance loans made to low-income borrowers is 4.55 percent compared to 13.19 percent of low-income families in the AA. The percentage of home refinance loans made to moderate-income borrowers is lower than the ratio of moderate-income families in the AA. Based on 2000 U.S. Census data and 2011 HMDA data, the percentage of home mortgage refinance loans made to moderate-income borrowers is 10.14 percent compared to 17.01 percent of moderate-income families in the AA. Based on 2010 U.S. Census data and 2012–2013 HMDA data, the percentage of home mortgage refinance loans made to moderate-income borrowers is 12.12 percent compared to 16.17 percent of moderate-income families in the AA.

Table 2A - Borrower Distribution of Home Loans in Morris-Sussex AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	12.33	5.88	17.01	41.18	25.36	23.53	45.30	29.41
Home Improvement	12.33	0.00	17.01	50.00	25.36	33.33	45.30	16.67
Home Mortgage Refinance	12.33	4.35	17.01	10.14	25.36	27.54	45.30	57.97

Source: 2011 data reported under HMDA; and 2000 U.S. Census data.

Table 2B - Borrower Distribution of Home Loans in Morris-Sussex AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	13.19	2.70	16.17	24.32	24.66	24.32	45.98	48.65
Home Improvement	13.19	13.33	16.17	6.67	24.66	6.67	45.98	73.33
Home Mortgage Refinance	13.19	4.55	16.17	12.12	24.66	21.97	45.98	61.36

Source: 2012 through 2013 data reported under HMDA; and 2010 U.S. Census data.

Warren Assessment Area

The overall borrower distribution for the Warren AA is reasonable based on 2000 and 2010 U.S. Census demographic data. This is based on reasonable penetration of home mortgage loans among borrowers of different income levels. More weight was placed on the level of loans made to moderate-income families. Although there was 12.10 percent of low-income families based on 2000 U.S. Census data and 14.37 percent of low-income families based on 2010 U.S. Census data, there were no low-income households in the AA. Moderate-income households made up 19.27 percent of moderate-income tracts based on 2000 U.S. Census data and 17.92 percent of moderate-income tracts based on 2010 U.S. Census data. *Refer to Tables 2C and 2D for additional information.*

The borrower distribution for home purchase loans reflects reasonable penetration of home mortgage loans among families of different levels. Based on 2000 U.S. Census data and the 2011 HMDA data, no home purchase loans were made to low-income families. Using 2010 U.S. Census data and 2012-2013 HMDA data, the percentage of home purchase loans made to low-income families is significantly lower at 2.94 percent than the ratio of 14.37 percent for low-income families in the AA. In comparison, the percentage of home purchase loans made to moderate-income families is near the ratio of moderate-income families in the AA for both 2000 and 2010 U.S. Census data. Based on 2000 U.S. Census data and the 2011 HMDA data, the percentage of home purchase loans made to moderate-income families is 14.29 percent compared to 13.72 percent for moderate-income families in the AA. Using 2010 U.S. Census data and the 2012-2013 HMDA data, the percentage of home purchase loans made to moderate-income families is 14.71 percent compared to 13.51 percent for moderate-income families in the AA.

The borrower distribution for home improvement loans reflects reasonable penetration of home mortgage loans among families of different levels. Based on the 2000 U.S. Census data and 2011 HMDA data, no home improvement loans were made to low-income families. Using 2010 U.S. Census data and the 2012-2013 HMDA data, the percentage of home improvement loans made to low-income families is significantly lower at 2.70 percent than the ratio of 14.37 percent for low-income families in the AA. Home improvement loans made to moderate-income families exceeded the ratio of loans made to moderate-income families in both 2000 and 2010 U.S. Census data. Based on 2000 U.S. Census data and the 2011 HMDA data, the percentage of home improvement loans made to moderate-income families is 33.33 percent compared to 13.72 percent for moderate-income families in the AA. Using 2010 U.S. Census data and the 2012-2013 HMDA data, the percentage of home improvement loans made to moderate-income families is 18.92 percent compared to 13.51 percent for moderate-income families in the AA.

The borrower distribution for home refinance loans reflects reasonable penetration of home mortgage loans among families of different levels. The percentage of home refinance loans made to low-income borrowers is significantly lower than the ratio of low-income families in the AA using both U.S. Census data. Using 2000 U.S. Census data and the 2011 HMDA data, the percentage of home refinance loans made to low-income families is significantly lower at 2.22 percent than the ratio of 12.10 percent for low-income families in the AA. Based on 2010 U.S. Census data and 2012-2013 HMDA data, the percentage of home refinance loans made to low-income families was 4.35 percent compared to 14.37 percent for low-income families in the AA.

The percentage of home refinance loans made to moderate-income borrowers using 2000 U.S. Census data and the 2011 HMDA data is near the ratio of 13.72 percent for moderate-income families in the AA. However, using 2010 U.S. Census data and the 2012-2013 HMDA data, the percentage of home refinance loans made to moderate-income families declined to 6.96 percent, which is lower than the ratio of 13.51 percent for moderate-income families in the AA.

Table 2C - Borrower Distribution of Home Loans in Warren AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	12.10	0.00	13.72	14.29	22.60	57.14	51.59	28.57
Home Improvement	12.10	0.00	13.72	33.33	22.60	0.00	51.59	66.67
Home Mortgage Refinance	12.10	2.22	13.72	15.56	22.60	26.67	51.59	55.56

Source: 2011 data reported under HMDA; and 2000 U.S. Census data

Table 2D - Borrower Distribution of Home Loans in Warren AA								
Borrower Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans	% of AA Families	% of Number of Loans
Home Purchase	14.37	2.94	13.51	14.71	20.82	32.35	51.29	50.00
Home Improvement	14.37	2.70	13.51	18.92	20.82	27.03	51.29	51.35
Home Mortgage Refinance	14.37	4.35	13.51	6.96	20.82	30.43	51.29	58.26

Source: 2012 through 2013 data reported under HMDA; and 2010 U.S. Census data.

Geographic Distribution of Loans

The geographic distribution of home loans in the Morris-Sussex Counties AA reflects a reasonable dispersion among census tracts of different income levels. A majority of FHB’s loans were made to borrowers in the Morris-Sussex Counties AA; as such, less weight was placed on the analysis of the Warren AA.

Morris-Sussex Assessment Area

The geographic distribution of home loans in the Morris–Sussex Counties AA reflects a reasonable dispersion among census tracts of different income levels and meets the standard for satisfactory performance. Refer to Tables 3A and 3B for additional information.

According to the 2000 U.S. Census, there were no low-income geographies in this AA. Moderate-income geographies comprise 8.77 percent of the census tracts and 6.44 percent of the population resides in this census tract. In addition, 5.13 percent of owner occupied housing units are located there.

The 2010 U.S. Census indicated a shift in income levels towards the upper income category. There are no low-income geographies in this AA. Moderate-income geographies comprised only

5.08 percent of the census tract and 4.00 percent of the population resides there, with 2.81 percent of owner occupied housing units. More weight is placed on moderate-income performance, as this segment represents a significantly larger portion than the low-income geography. This analysis reflects lending in all tracts, with the exception of low-income tracts.

The distribution for home purchase loans reflects reasonable dispersion among geographies of different income levels. Based on 2000 and 2010 U.S. Census data, the percentage of home purchase loans made in the moderate-income areas is near the percentage of owner occupied housing units located in the moderate-income portions of the AA.

The distribution for home improvement loans reflects poor dispersion among geographies of different income levels. The percentage of owner occupied housing units located in the moderate income portions of the AA was 5.13 percent based on the 2000 U.S. Census data and 2.81 percent for the 2010 U.S. Census data, which is significantly below the percentage of home improvement loans made in the moderate income areas. Based on 2011 and 2012–2013 HMDA data, there were no home improvement loans made in the moderate-income areas.

The distribution of home refinance loans reflects reasonable dispersion among geographies of different income levels. Based on 2000 U.S. Census data and 2011 HMDA data, the percentage of home refinance loans made in the moderate income areas was 2.90 percent, which is near the percentage of owner occupied housing units located within the community. Based on 2012-2013 HMDA data, no home refinance loans were made in the moderate-income geography.

Table 3A - Geographic Distribution of Home Loans in Morris-Sussex AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	5.13	5.88	60.72	58.82	34.14	35.29
Home Improvement	0.00	0.00	5.13	0.00	60.72	33.33	34.14	66.67
Home Mortgage Refinance	0.00	0.00	5.13	2.90	60.72	39.13	34.14	57.97

Source: January 1, 2011 to December 31, 2011 Data reported under HMDA; U.S. Census data: 2000. Data shown only One to Four-family and Manufactured housing

Table 3B - Geographic Distribution of Home Loans in Morris-Sussex AA.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	2.81	8.11	56.81	40.54	40.38	51.35
Home Improvement	0.00	0.00	2.81	0.00	56.81	40.00	40.38	60.00
Home Mortgage Refinance	0.00	0.00	2.81	0.00	56.81	36.57	40.38	63.43

Source: Jan 1, 2012 to Dec 31, 2013 Data reported under HMDA. U.S. Census data: 2010. Data shown only One to Four-family and Manufactured housing

Warren Assessment Area

The geographic distribution of home loans in the Warren AA reflects a poor dispersion among census tracts of different incomes. *Refer to Tables 3C and 3D for additional information.*

According to the 2000 U.S. Census, the Warren County AA contains 4.35 percent of moderate-income census tracts. Of which, 2.88 percent of the population are in the moderate-income tracts and 2.15 percent of owner occupied housing units are located in these tracts.

The 2010 U.S. Census indicated the amount of geographic census tracts in the moderate-income bracket increased. Specifically, 13.64 percent of the census tracts are comprised of moderate-income levels with 11.59 percent of the population residing in the moderate-income tracts. Additionally, 8.33 percent of the owner occupied housing units are located in moderate-income tracts. No owner-occupied housing units were located in low-income geographies according to both 2000 and 2010 U.S. Census data. This analysis placed more weight on mortgage loans in moderate-income geographies.

The distribution for home purchase loans reflects poor dispersion among geographies of different income levels. No home purchase loans were originated in the moderate-income geography based on 2011 HMDA data. The percentage of home purchase loans, based on 2012-2013 HMDA data, is 2.78 percent, which is significantly below the percentage of owner occupied housing units located in the moderate-income portions of the AA at 8.33 percent.

The distribution for home improvement loans reflects poor dispersion among geographies of different income levels. Based on 2011 and 2012-2013 HMDA data, no home improvement loans were made in moderate-income geographies.

The distribution of home refinance loans reflects poor dispersion among geographies of different income levels. Based on 2011 HMDA data, no home mortgage refinance loans were made in moderate-income geographies. Using 2012-2013 HMDA data, the percentage of home mortgage refinance loans made in the moderate-income areas is 0.86 percent, which is significantly below the percentage of owner occupied housing units located in the moderate-income portions of the AA at 8.33 percent.

Table 3C - Geographic Distribution of Home Loans in the Warren Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	2.15	0.00	33.80	0.00	64.05	100.00
Home Improvement	0.00	0.00	2.15	0.00	33.80	16.67	64.05	83.33
Home Mortgage Refinance	0.00	0.00	2.15	0.00	33.80	6.67	64.05	93.33

Source: January 1, 2011 to December 31, 2011 Data reported under HMDA; U.S. Census data: 2000.

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan type	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans	% of AA Owner Occupied Housing	% of Number of Loans
Home Purchase	0.00	0.00	8.33	2.78	25.66	33.33	66.00	63.89
Home Improvement	0.00	0.00	8.33	0.00	25.66	7.89	66.00	92.11
Home Mortgage Refinance	0.00	0.00	8.33	0.86	25.66	12.93	66.00	86.21

Source: Jan 1, 2012 to December 31, 2013 Data reported under HMDA. U.S. Census data: 2010.

Responses to Complaints

FNB did not receive complaints about its performance in helping to meet the credit needs in the bank's AAs during this evaluation period.

COMMUNITY DEVELOPMENT (CD) TEST

FHB's level of responsiveness to CD needs through CD loans, services, and qualified investments originated and offered in the Warren and Morris-Sussex AAs meet the standard of adequate responsiveness.

Number and Amount of Community Development Loans

CD loans originated in the AAs are adequate. The total number of CD loans originated is 26 totaling \$9.9 million. All CD loans considered meet the criteria outlined in interagency guidance.

The number of CD loans originated in the Warren AA is six totaling \$1.1 million. Proceeds of one of the loans were used to provide affordable housing for low- and moderate-income (LMI) individuals. Another type of loan provided funding to purchase a restaurant for job creation to LMI individuals. The number of CD loans originated in the Morris-Sussex AA is 14 totaling \$8.7 million. Proceeds were used to provide affordable housing for low-and moderate-income (LMI) individuals and funding for the construction of a new auto dealership that provides jobs to LMI individuals. FHA loans and Rural Housing Loans were funded for borrowers in Warren County and Morris-Sussex Counties. Additionally, \$75 thousand in Special Needs Trust loans were targeted to LMI individuals in both Warren and Sussex Counties. Given the limited amount of LMI geographies and individuals and the limited opportunities for CD loans, the amount of the CD loans originated in each AA meets the standard for adequate performance.

Number and Amount of Qualified Investments

The level of qualified investments (QI) is adequate. The total number of QI is 43 totaling \$4.2 million. All QI considered meet the criteria outlined in interagency guidance.

Both AAs meet identified needs to create affordable housing and provide services to LMI individuals. The number of QI that benefit the Warren AA is twelve totaling approximately \$7

thousand. The number of QI that benefit the Morris-Sussex AA is fourteen totaling \$8 thousand. The QI primarily support affordable housing and community services, which include shelters for the homeless, victims of domestic abuse, disabled individuals, food pantries, and organizations that create affordable housing. Thirteen investments totaling \$4.2 million were made to organizations that benefit both AAs. These primarily consist of three mortgage backed securities that include loans made to LMI families in the AAs. The other investments benefit organizations, which provide financial services, affordable housing, and shelters for the homeless. Four QI totaling \$26 thousand were made to the Federal Home Loan Bank for their affordable housing program. These investments benefit the statewide region which includes both AAs. Given the limited amount of LMI geographies and individuals, the amount of QI originated in each AA meet the standard for adequate performance.

Extent to Which the Bank Provides Community Development Services

The level of CD services offered in each AA is adequate. While no bank branches are located in LMI census tracts, FHB offered services to ten different organizations. All CD services considered meet the definitions outlined in interagency guidance. Four CD services benefit the Morris-Sussex AA. These services include providing financial literacy education and technical assistance to organizations that promote economic development that benefit LMI individuals. There is one service that benefits the Warren AA, which provides social programs in the Warren AA targeted to LMI individuals. Four services benefit both AAs and one of the CD services benefits the statewide area, which also include both AAs. CD services offered in each AA meet the standard for adequate performance.

Responsiveness to Community Development Needs

The bank's offering of CD loans, services, and QI are responsive to CD needs of the AAs. The majority of CD loans and a number of QI and CD services directly address affordable housing, the primary CD need of the AA. The remaining items support CD services for LMI individuals.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.