



## **INTERMEDIATE SMALL BANK**

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

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### **PUBLIC DISCLOSURE**

**January 14, 2008**

### **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 West Field Office  
343 Thornall Street  
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.**

## 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 **January 14, 2008**. 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 Lending Test is rated: **Satisfactory**

The Community Development Test is rated: **Satisfactory**

The primary factors supporting the overall rating are:

- The average loan-to-deposit ratio meets the standard for satisfactory performance.
- The bank exceeds the standards for satisfactory performance for lending in their assessment areas.
- The distribution of loans among borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance.
- The geographic distribution of CRA reportable loans meets the standards for satisfactory performance.
- The level of community development loans, services, and investments meets the standards for satisfactory performance.

## SCOPE OF EXAMINATION

We performed a full-scope review of both assessment areas (AAs) designated by the bank. The assessment period for FHB's community development (CD) activities is May 10, 2004 to January 14, 2008. Loan data from January 1, 2004 to December 31, 2006 was used to determine the bank's lending performance. Primarily loan products are home mortgage loans, home improvement loans, home refinance loans, and commercial loans. Consumer loans were

excluded from this review because they are not considered a primarily loan product. Demographic information was generated from the 2000 census.

As part of our examination, we contacted two Economic Development Organizations to discuss economic conditions, community credit needs, CD opportunities, and financial institutions' participation in the local community. One of the organizations is a non-profit corporation that serves the low income population. The other organization serves nonprofit community based organizations and individuals that are in need of volunteer support. One of our contacts noted that the economic conditions are favorable. The majority of census tracts in the counties served by the organizations are middle and upper income. Banking and credit needs are centered in homeownership and small business lending. Credit opportunities are primarily centered in supporting businesses to create and maintain permanent jobs in the community. Many of the individuals that live in the local communities work outside the area in the surrounding metropolitan areas. The contact felt that supporting local businesses will help permanent job creation within the local communities. Both contacts noted that financial institutions are very involved in their organizations, and have participated and sponsored several of their projects. Overall, our contacts felt that banks have done an outstanding job in meeting the needs of the local communities.

## **DESCRIPTION OF INSTITUTION**

FHB is a \$371 million bank with its main office located in Hope, NJ. FHB is an independently owned bank with one operating subsidiary, First Hope Invescorp, which administers portions of the bank's investment holdings. The bank's capacity for community reinvestment is not impacted by the activities of its subsidiary. In addition to traditional banking products, the bank offers an array of investment and fiduciary services through their Investment and Trust Management Division. The previous CRA examination which commenced on May 10, 2004 concluded that the bank was overall satisfactory.

The bank offers traditional retail deposit products. In addition, FHB offers specialized deposit products including: The Young Savers' Program, Interest on Lawyers Trust Account (IOLTA), and the Northwest New Jersey Community Action Program (NORWESCAP) Individual Development Account (IDA) Program. The bank's Young Savers' Program teaches students financial literacy. The program shows students the importance of understanding financial concepts. IOLTA takes deposits from law firm clients which would not otherwise earn interest and pools them into special interest bearing accounts maintained by law firms. The interest proceeds are paid to the IOLTA Fund of the BAR of New Jersey to support law-related charitable purposes. NORWESCAP's IDA Program is a matched savings account for income eligible people to help achieve financial goals. Some of these goals include: home purchase, education and training, small business capitalization, and expansion or transportation necessary for self-sufficiency.

During our evaluation period the bank expanded its AA to include the entire counties of Sussex, Morris, and Warren counties. This expansion of the AAs was due to the implementation of the bank's Mobile Business Bankers Courier Service. The bank's two courier services have supplemented traditional banking products and services covering Warren County since May 2004, and Sussex and Morris counties since November 2005. The bank conducts its operations

from six locations within its two AAs. Since the last CRA examination the bank opened one branch in Andover Township. Branches located within Warren County include Hope, Blairstown, and Great Meadows; the Sparta and Andover offices are located in Sussex County and the Hackettstown branch is in Morris County, just beyond the Warren County line. The bank also has three stand-alone cash dispensing automatic teller machines (ATMs); one in Blairstown and two in Knowlton Township.

Competition within the bank's AAs continues to be aggressive as numerous banks compete for the same customer base. The bank has determined the credit needs of the community as personal consumer, housing, and small business loans. The bank's primary business is in residential real estate and commercial lending.

## **DESCRIPTION OF ASSESSMENT AREAS**

The bank has designated two AAs for the purpose of CRA. The bank's two AAs, which cover 162 census tracts, consist of Warren, Sussex, and Morris Counties of New Jersey and one census tract in Northampton County, Pennsylvania. The area is contiguous and consists of 1 (0.62%) low-income census tract, 10 (6.17%) moderate-income census tracts, 71 (43.83%) middle-income census tracts, and 80 (49.38%) upper-income census tracts. The AA complies with the requirements of the regulation and does not arbitrarily exclude low-income or moderate-income areas.

The first AA consists of 23 census tracts in Warren County, NJ and one census tract in Northampton County, Pennsylvania located in the Allentown-Bethlehem-Easton, PA-NJ Metropolitan Statistical Area (MSA 10900). The 2000 census median family income is \$53,852 and HUD updated 2006 median family income is \$65,900. The second AA consists of 139 census tracts in Sussex and Morris Counties that are located in the Newark-Union NJ Metropolitan Statistical Area (MSA 35084). The 2000 census median family income is \$68,424 and HUD updated 2006 median family income is \$85,400.

FHB's AAs have an overall population of 716,815, of which 123 (0.02%) are low-income, 33,362 (4.65%) are moderate-income, 309,580 (43.19%) are middle-income, and 373,750 (52.14%) are upper-income. There are 199,145 owner-occupied housing units in the AA, of which 5,975 (3%) are moderate-income, 80,222 (40.28%) are middle-income, and 112,948 (56.72%) are upper-income.

The tables on the following page detail the AA demographics based on the 2000 census and 2006 HUD data:

Demographic Information: FIRST HOPE BANK - MORRIS AND SUSSEX COUNTY						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	139	0.72	6.47	43.88	48.92	0.00
Population by Geography	614,378	0.02	4.95	44.03	51.00	0.00
Owner-Occupied Housing by Geography	171,009	0.00	3.14	41.35	55.51	0.00
Business by Geography	45,935	0.05	4.25	41.37	54.33	0.00
Farms by Geography	1,377	0.00	3.12	41.18	55.70	0.00
Family Distribution by Income Level	164,638	11.46	14.57	21.95	52.02	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	42,851	0.05	9.43	54.90	35.62	0.00
Median Family Income HUD Adjusted Median Family Income for 2006 Households Below Poverty Level		68,424 85,400 4%		Median Housing Value Unemployment Rate (2000 US Census)	240,138 1.89%	

### FIRST HOPE BANK - WARREN COUNTY

Demographic Information: FIRST HOPE BANK - WARREN COUNTY AND NORTHAMPTON COUNTY						
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	6,257	0.00	2.22	39.32	58.46	0.00
Farms by Geography	331	0.00	0.60	20.85	78.55	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 2006 Households Below Poverty Level		53,852 65,900 6%		Median Housing Value Unemployment Rate (2000 US Census)	154,556 2.00%	

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

FHB's loan-to-deposit ratio meets the standard for satisfactory performance. As of September 30, 2007, the bank's 14 quarter average loan-to-deposit ratio, calculated since the last CRA examination, was 75%. This exceeds the average loan-to-deposit ratio of 72% for similarly situated banks in FHB's AAs. The loan-to-deposit ratios for the same time period for 6 similarly situated banks range between 23% and 99%. Similarly situated banks are those banks of comparable asset size and operating in the same geographies.

### Lending in Assessment Area

FHB exceeds the standards for satisfactory performance for lending in its AAs. We reviewed the distribution of the bank's primary loan products from January 1, 2004 to December 31, 2006. During the assessment period, 90% of the bank's total loans were originated in the AAs. HMDA reportable loans and small business loans originated in the AAs were 89% and 91%, respectively.

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

The distribution of loans among borrowers of different income levels meets the standards for satisfactory performance. The total number of CRA reportable loans made within both AAs to low and moderate-income individuals was 92 or 13.22%. Lending volumes to low and moderate-income families are impacted by the high median home values within the Morris and Sussex County AA and Warren County AA at \$240,138 and \$154,556, respectively.

The borrower distribution of loans in the Morris and Sussex County AA meets the standards for satisfactory performance. During the assessment period, 3.39% of the total number of CRA reportable loans originated were to low-income borrowers and 9.32% were to moderate-income borrowers. On aggregate, 12.71% of the CRA reportable loans originated in the AA were to low and moderate-income individuals. These percentages compare reasonably to the percentages of low and moderate-income families in the AA at 11.46% and 14.57%, respectively.

The borrower distribution of loans in the Warren County AA meets the standards for satisfactory performance. During the assessment period, 2.63% of total CRA reportable loans originated were to low-income borrowers. CRA reportable loans originate to moderate-income borrowers were 11.11%. Aggregate loans to low and moderate-income individuals was 13.74%. These percentages compare reasonably to 12.10% low-income and 13.72% moderate-income families in the AA.

The distribution of loans among businesses of different sizes meets the standards for satisfactory performance. FHB originated 220 business loans within their AAs between 2004 and 2006. The distribution between each AA was predominately equal at 45.55% in the Morris and Sussex County AA and 54.44% in the Warren County AA. Of the 220 loans originated, 72.27% were to businesses with annual revenues of \$1 million or less.

The tables below detail the borrower distribution of loans:

Borrower Distribution of Loans - Morris & Sussex County AA														
	Total Loans		Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers		
	Number	% of Total	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans
Home Purchase Loans	21	56.76%	11.46%	14.29%	3	14.57%	9.52%	2	21.95%	23.81%	5	52.02%	52.38%	11
Home Improvement Loans	196	52.27%	11.46%	2.05%	4	14.57%	7.69%	15	21.95%	32.82%	64	52.02%	57.44%	113
Home Mortgage Refinance	137	48.24%	11.46%	3.76%	5	14.57%	12.03%	16	21.95%	27.07%	37	52.02%	57.14%	78

Borrower Distribution of Loans - Warren County AA														
	Total Loans		Low-Income Borrowers			Moderate-Income Borrowers			Middle-Income Borrowers			Upper-Income Borrowers		
	Number	% of Total	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans	% Families	% Bank Loans	# of Bank Loans
Home Purchase Loans	16	43.24%	12.10%	0.00%	0	13.72%	6.67%	1	22.60%	20.00%	3	51.59%	73.33%	12
Home Improvement Loans	179	47.73%	12.10%	1.69%	3	13.72%	11.24%	20	22.60%	28.65%	51	51.59%	58.43%	105
Home Mortgage Refinance	147	51.76%	12.10%	4.14%	6	13.72%	11.72%	17	22.60%	24.83%	37	51.59%	59.31%	87

Borrower Distribution of Small Loans to Businesses								
	Total Loans		Businesses with revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size		
	Number	% of Total	% of Businesses	% Bank Loans	# of Bank Loans	\$100,000 or less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000
Morris & Sussex County AA	100	45.45%	70.61%	71.00%	71	40.00%	28.00%	32.00%
Warren County AA	120	54.55%	70.91%	73.33%	88	66.00%	24.00%	10.00%

### Geographic Distribution of Loans

The geographic distribution of loans meets the standards for satisfactory performance. Overall, the bank's lending to individuals in moderate-income census tracts is satisfactory at 2.12% of total CRA reportable loans. Lending volumes to individuals in moderate-income census tracts compare reasonably to the percentage of owner occupied units at approximately 2.65%. Lending in low-income geographies is not applicable as both AAs contain no owner occupied units in low-income geographies. The majority of the bank's lending was to individuals in upper-income census tracts. This is reasonable considering that approximately 50% of the owner occupied units are in upper-income geographies.

The distribution of loans among businesses located in moderate income geographies meets the standards for satisfactory performance. Again, no owner occupied units are located in low-income geographies. Of the 220 business loans originated within the AAs, 2% were to businesses in moderate-income geographies. This compares reasonably to the percentage of owner occupied units at approximately 2.65%.

The tables on the following page detail the geographic distribution of loans for each AA:

Geographic Distribution of Loans - Morris & Sussex County AA														
	Total Loans		Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
	Number	% of Total	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans
Home Purchase Loans	21	56.76%	0.00%	0.00%	0	3.14%	0.00%	0	41.35%	61.90%	13	55.51%	38.10%	8
Home Improvement Loans	196	52.27%	0.00%	0.00%	0	3.14%	3.06%	6	41.35%	33.67%	66	55.51%	63.27%	124
Home Mortgage Refinance	147	51.76%	0.00%	0.00%	0	3.14%	5.11%	8	41.35%	43.07%	63	55.51%	51.82%	76
Small Loans to Businesses	100	45.45%	0.00%	0.00%	0	4.25%	2.00%	2	41.37%	41.00%	41	54.33%	57.00%	57

Geographic Distribution of Loans - Warren County AA														
	Total Loans		Low-Income Geographies			Moderate-Income Geographies			Middle-Income Geographies			Upper-Income Geographies		
	Number	% of Total	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans	% Owner Occupied Units	% Bank Loans	# of Bank Loans
Home Purchase Loans	16	43.24%	0.00%	0.00%	0	2.15%	6.25%	1	33.80%	12.50%	2	64.05%	81.25%	13
Home Improvement Loans	179	47.73%	0.00%	0.00%	0	2.15%	0.00%	0	33.80%	8.38%	15	64.05%	91.62%	164
Home Mortgage Refinance	147	51.76%	0.00%	0.00%	0	2.15%	0.00%	0	33.80%	8.16%	12	64.05%	91.84%	135
Small Loans to Businesses	120	54.55%	0.00%	0.00%	0	2.22%	0.00%	0	39.32%	25.00%	30	58.46%	75.00%	90

**Responses to Complaints**

The bank has not received any CRA related consumer complaints since the previous CRA examination.

**Community Development Loans, Qualified Investments, and Community Development Services**

FHB’s level of CD loans, services, and investments meets the standards for satisfactory performance

The bank’s level of CD lending is satisfactory when considering the opportunities available within their AA. The bank originated 4 CD loans totaling approximately \$6.4 million during the evaluation period. The CD loans helped create housing for low and moderate-income individuals. The loans reviewed comply with the CD definition and were responsive to the needs of the local community.

The level of qualified services provided by FHB are satisfactory. During the assessment period FHB provided 14 services that qualified under the CD test criteria. Of the 14 services, 8 were in community service, 5 in economic development, and 1 which supported the revitalization of a National Disaster Area. Community services involved services directed towards women centers, low and moderate-income senior citizens, and financial literacy. Member of the Board, Senior Management, and bank staff participated in the CD services.

The bank's performance under the CD investment test is satisfactory. In evaluating the bank's level of investments, we considered the CD opportunities in the AAs. In addition, we also considered the bank's financial ability and the capacity for the local infrastructure to create qualified investments.

As of this examination date, the bank's investments totaled \$233,909. The ratio of qualified investments to Tier 1 Capital was 0.83%. The investments were given to over twenty organizations within FHB's AA. The investments supported affordable housing projects, social services, financial education, economic development, child services, and homeless initiatives benefiting primarily low and moderate-income families. The bank also provided assistance in rebuilding the communities affected by Hurricane Katrina.

Since the bank's AAs only contain one low income census tract and ten moderate census tracts, there are limited opportunities to make investments that would benefit low and moderate-income individuals. Overall, the bank's efforts to make investments that aid low and moderate-income families and individuals are satisfactory.

#### **Fair Lending or Other Illegal Credit Practices Review**

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