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Comptroller of the Currency  
Administrator of National Banks

SMALL BANK

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Northeastern District  
1114 Avenue of the Americas, Suite 3900  
New York, New York 10036

## **PUBLIC DISCLOSURE**

January 4, 1999

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The National Bank of Sussex County  
Charter Number 13855  
3 Broad Street  
P.O. Box 460  
Branchville, New Jersey 07826**

**Office of the Comptroller of the Currency**

**New York Metro Field Office  
830 Morris Turnpike  
Second Floor  
Short Hills, New Jersey 07078**

**NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.**

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with 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 **The National Bank of Sussex County** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of September 30, 1998. 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 bank's rating is supported by the following facts:

- The bank's average loan-to-deposit ratio is 61.0%, which is adequate.
- A substantial majority of the bank's lending is in the assessment area.
- Lending activity reflects reasonable distribution to borrowers of different income levels within the assessment area.

The following table indicates the performance level of The National Bank of Sussex County with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>THE NATIONAL BANK OF SUSSEX COUNTY</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	Not	meaningful	
Response to Complaints	No since the	complaints prior	received examination

## **DESCRIPTION OF INSTITUTION**

The National Bank of Sussex County of Branchville, New Jersey is located in rural Sussex County, New Jersey. The bank is wholly owned by Highpoint Financial Corporation, a one bank holding company. As of September 30, 1998, total assets were \$251 million, total loans \$138 million, total investments \$91 million and total deposits \$215 million. The loan portfolio is comprised of 64% home mortgage loans, 33% commercial and industrial loans and 3% consumer loans. Competition within The National Bank of Sussex County's assessment area consists of local community and regional financial institutions. The National Bank of Sussex County serves its present community through its main office and nine (9) branches. All locations offer a full range of banking services, extended banking hours and automated teller machines (ATM) access at all locations except the Stillwater branch. The bank offers full securities brokerage services, including mutual funds and annuities, through a third party vendor. The National Bank of Sussex County also offers a twenty-four hour telephone banking system.

The National Bank of Sussex County is not subject to any legal or regulatory restrictions or any other impediments which would preclude the bank from helping to meet the credit needs of its assessment area.

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area is defined as the entire county of Sussex which is located in the northwestern portion of New Jersey. Sussex County is located within the Newark Metropolitan Statistical Area (MSA) 5640. The bank's assessment area consists of forty-one census tracts. The total population within the assessment area is 130,943. The National Bank of Sussex County's assessment area complies with regulatory requirements and does not arbitrarily exclude low or moderate income areas.

Of the forty-one census tracts within the assessment area, one census tract is moderate income, representing 2% of the total income tract; thirty-one middle income, representing 76%; and nine are upper income, representing 22%. There are no low income tracts within the assessment area. The Housing and Urban Development (HUD) estimated median family income of MSA 5640 is \$64,700. Home ownership represents approximately 70% of the total number of housing units. Discussion with a community contact revealed that the primary credit need in this area is real estate mortgages and home improvement loans.

The bank's assessment area is rural and the economic conditions are stable. The economy is largely driven by tourism, service, retail and government. Based on current information from the New Jersey Job Service dated November 1998, unemployment was reported to be 3.1% in Sussex County. According to information provided by the Sussex County Chamber of Commerce, the primary employers are: Selective Insurance Company, Newton Memorial Hospital and Andover Intermediate Care Center. Self employed businesses consist primarily of construction and landscaping.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

### Loan to Deposit Analysis

The National Bank of Sussex County's average loan-to-deposit ratio is 61% for the nine quarters since the last examination compared to their local peer's average of 71%. The loan-to-deposit ratio does not reflect loans originated and sold to the Federal Home Loan Mortgage Corporation. In 1998, approximately forty-two mortgage related loans were originated and sold aggregating \$5.2 million.

### Credit Extended Inside the Assessment Area

A substantial majority of National Bank of Sussex County's lending activity is within its assessment area. The bank's lending activities are concentrated in the real estate loan portfolio. Mortgage related loan originations were 273 and 351 in 1997 and 1998, respectively. Our analysis of the bank's Home Mortgage Disclosure Act (HMDA) reportable loans (residential mortgages and home improvements loans) for 1997 revealed loan originations within the assessment area were 88% of the total number and 87% of the total dollar amount. In 1998, loan originations represented 92% of the total number and 88% of the total dollar amount. 1998 data is reflected in the chart below.

A random sample of the commercial and consumer loans originated in 1997 were reviewed representing 56% and 54% of the portfolios respectively. In 1998, these loans represented 53% and 59% of the portfolios respectively. All lending appears to be reasonably dispersed throughout the assessment area based on the sample reviewed. The following chart illustrates the level of the bank's lending activity within its assessment area by loan type.

<i>LOAN ORIGINATIONS - 1998</i>								
Loan Type	INSIDE ASSESSMENT AREA				OUTSIDE ASSESSMENT AREA			
	# Lns	%	\$ Amount (000s)	%	# Lns	%	\$ Amount (000s)	%
HMDA reportable loans	322	92%	26,392	88%	29	8%	3,504	12%
Commercial loans sampled	89	97%	5,270	89%	3	3%	637	11%
Consumer loans sampled	128	93%	909	92%	9	7%	81	8%
TOTAL	539	93%	32,571	89%	41	7%	4,222	11%

\* Includes commercial real estate loans to small businesses

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:** (continued)

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

The National Bank of Sussex County's lending activity is reasonable among individuals of different income levels and businesses of different sizes, given the demographics of the assessment area. Our analysis of lending to borrowers of different incomes is based on mortgage related loans as reported on the Home Mortgage Disclosure Act - Loan Application Report (HMDA-LAR) during 1997 and 1998. The following chart illustrates lending to borrowers of different income levels within the assessment area.

<i>DISTRIBUTION OF LOANS TO BORROWERS OF DIFFERENT INCOME LEVELS</i>									
		1998				1997			
Borrower Income Level	Percentage of Families within each Tract Category	# Lns	%	\$ Amount (000s)	%	# Lns	%	\$ Amount (000s)	%
Upper	40%	121	37%	13,402	51%	76	31%	8,795	46%
Middle	30%	109	33%	8,250	31%	78	33%	5,262	28%
Moderate	18%	67	21%	3,750	14%	59	25%	3,928	21%
Low	12%	30	9%	938	4%	26	11%	984	5%
TOTAL		327	100%	26,340	100%	239	100%	18,969	100%

The National Bank of Sussex County's Call Report dated June 30, 1998 shows that of the 352 small business loans (defined as loans for \$1 million or less) outstanding, 205 were \$100,000 or less, 58 were between \$100,000 and \$250,000 and 44 were between \$250,000 and \$1,000,000. Outstanding small business loans reported at June 30, 1997 were 378, 252, 63, 57 respectively.

There are no low and only one moderate income census tract within the bank's assessment area. Therefore, an analysis of the geographic distribution of loans is not meaningful.

A Fair Lending examination was conducted concurrently with this performance evaluation of the Community Reinvestment Act. The examination revealed compliance with all substantive provisions of the anti-discrimination laws and regulations.