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Comptroller of the Currency  
Administrator of National Banks

**LARGE  
BANK**

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

## **Public Disclosure**

May 18, 1998

### **Community Reinvestment Act Performance Evaluation**

**Commerce Bank/Pennsylvania, N. A.  
Charter Number: 18273**

**1900 Market Street  
Philadelphia, Pennsylvania 19103**

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

**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.**

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## 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 CRA performance of **Commerce Bank/ Pennsylvania, N. A.** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **May 18, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.

## 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.

**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.

**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.

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

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in a MSA to file annual summary reports of their mortgage lending activity. The report includes such data as the race, gender and the income of the applicants, the amount of the loan requested, and its disposition (e.g., approved, denied, withdrawn).

**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 census tracts. 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.

**Low-Income** - Income levels that are less than 50% of the MFI.

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

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

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

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

## CRA RATING

**Institution's CRA Rating:** This institution is rated **“Satisfactory.”**

The factors supporting the bank's overall rating include:

- ▶ a good responsiveness to credit needs within the assessment area;
- ▶ a high percentage of home mortgage and small business loans made within the assessment area;
- ▶ a good geographic distribution of all loans within the assessment area;
- ▶ a good distribution of loans among borrowers of different income levels and to businesses of different sizes;
- ▶ an adequate level of community development lending activity;
- ▶ reasonable use of flexible lending practices in order to serve assessment area credit needs;
- ▶ an adequate level of investments throughout the assessment area;
- ▶ limited access to delivery systems throughout most of the assessment area; and,
- ▶ a reasonable level of community development services provided.

The following table indicates the performance level of Commerce Bank/Pennsylvania, N. A. with respect to the lending, investment and service tests.

PERFORMANCE LEVELS	COMMERCE BANK/PENNSYLVANIA, N. A. PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X		
Low Satisfactory		X	X
Needs to Improve			
Substantial Noncompliance			

\* Note: The lending test is weighted more heavily than the investment and service tests in the overall rating.

## DESCRIPTION OF INSTITUTION

Commerce Bank/Pennsylvania, N.A. (CB/PA), headquartered in Philadelphia, PA, is wholly-owned by Commerce Bancorp, Inc., a \$4.2 billion bank holding company located in Cherry Hill, NJ. CB/PA is a commercial bank, with total assets of \$631 million as of March 31, 1998. CB/PA operates 16 full service branches with drive-ins and ATM facilities located within the five Pennsylvania counties of the Philadelphia MSA. The bank's primary businesses include traditional community bank deposit and credit services. Three branches are in the City of Philadelphia, while the remaining 13 are in the surrounding suburban counties.

As of March 31, 1998, CB/PA's loan-to-deposit ratio of 27% is lower than both national and local peer bank averages. Over the past four years, the bank has experienced an average loan growth of 24% and an average core deposit growth of 23%. Management reports that there are two factors that affect the loan-to-deposit ratio. These are: (1) the predominance of amortizing real estate and other consumer loans in the portfolio and (2) the sale of originated residential mortgages on the secondary market. Both of these issues cause the level of outstanding loans to be smaller than peer banks.

The following table compares the asset mix of CB/PA to national banks of similar size and scope of operation and to local banks, as of March 31, 1998.

<b>ASSET MIX</b>			
	<b>CB/PA</b>	<b>National Peer</b>	<b>Local Peer</b>
<b>Loans</b>	28%	62%	61%
<b>Investments</b>	60%	30%	31%
<b>Other Assets</b>	12%	8%	8%
<b>Total</b>	100%	100%	100%
<b>Loan/Deposit Ratio</b>	27%	76%	83%

**Note: Percentages may not add to 100% due to rounding.**

The following table portrays the principal loan mix of the bank.

<b>TYPES OF DOMESTIC LOANS OUTSTANDING</b>		
	<b>Amount (\$000)</b>	<b>Percentage</b>
<b>Commercial Real Estate Loans</b>	57,766	35.6%
<b>Commercial Loans</b>	32,572	20.1%
<b>Consumer Loans</b>		
<b>Residential Mortgages</b>	20,067	12.4%
<b>Home Equity Loans and Lines</b>	45,108	27.8%
<b>Other Consumer Loans</b>	6,621	4.1%
<b>Total</b>	162,134	100.0%

**Note:** Percentages may not add to 100% due to rounding.

There are no financial or legal obstacles that affect CB/PA's ability to meet its community's credit needs.

CB/PA's competition comes from area banks, savings and loans, and other financial institutions. Primary competitors include First Union, Mellon and PNC.



## DESCRIPTION OF ASSESSMENT AREA

CB/PA’s assessment area consists of five contiguous counties: Philadelphia, Chester, Montgomery, Delaware and Bucks. These counties are within the Philadelphia Metropolitan Statistical Area #6160, which contains counties from the states of Pennsylvania and New Jersey.

The assessment area meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income (LMI) areas. LMI is used throughout this document to describe low- or moderate-income individuals and/or census tracts. The assessment area has a total of 964 census tracts.

<b>ASSESSMENT AREA DEMOGRAPHICS</b>			
<b>Designation</b>	<b># Census Tracts</b>	<b>% of Total Tracts</b>	<b>% of Households Residing in the Census Tracts</b>
<b>Low</b>	87	9%	9%
<b>Moderate</b>	168	17%	20%
<b>Middle</b>	395	41%	44%
<b>Upper</b>	286	30%	27%
<b>N/A</b>	28	3%	0%
<b>Total</b>	964	100%	100%

**Note:** Percentages may not add to 100% due to rounding.

More than 3.7 million residents populate the assessment area. The weighted average of the census median family income is \$41,908. As seen in the above table, 29% of households in the assessment area reside in LMI tracts. Of the 87 low-income tracts, 79 are in Philadelphia with the remaining in Chester County. The median housing value in the assessment area is \$107,640 and the median age of housing stock is 44 years. Total occupied housing units is 92%, with owner-occupied housing at 63% and rental occupied housing at 29%.

The Pennsylvania counties are typical of many of the country’s older industrial centers that have experienced an outward migration of residents and employment to the surrounding suburban areas. Over the past four decades, the City of Philadelphia has lost more than 25% of its population. During the same period, the surrounding suburban counties have experienced dramatic growth.

The service, retail and construction-related industries are the major employers in the area. These businesses provide goods and services to the area’s residential population. Many suburban office complexes have evolved to support the service industry growth.

Philadelphia has experienced the loss of many manufacturing and industrial businesses which

provided many jobs for city residents. While the downtown area has prospered by providing jobs in the service sector, the loss of neighborhood-based industries has eroded the inner sections of the city, reducing their economic base and middle class.

Overall, assessment area unemployment rates have remained steady and relatively low over the past two years at approximately 5%. Unemployment in the City of Philadelphia is approximately 6%.

The credit needs of the assessment area vary by county. Philadelphia does not have a housing shortage as the city has experienced population loss over the years. However, the condition of the housing stock is deteriorating and there is a shortage of housing units priced at sales and/or rental levels affordable to LMI households. Chester County also has a lack of available for-sale and rental housing for low-income persons. Bucks County, which has sustained the largest population gain since the last review, has a shortage of multifamily rental apartments, condominiums and small starter homes. In addition to housing, small business loans were described as primary credit needs by bank management and community contacts.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### SCOPE OF EXAMINATION

This examination covered a time period from January 1, 1996 to March 31, 1998 for all HMDA, small business and community development loans. This bank was reviewed in conjunction with two affiliate banks (Commerce Bank, N.A. and Commerce/Shore). HMDA, small business and community development loans originated by one of the abovementioned affiliates were counted as loans originated by CB/PA for the purposes of this Performance Evaluation to the extent those loans benefitted CB/PA's assessment area. Qualified investments purchased and services provided over this time period were also reviewed. Please refer to Appendix A of this Performance Evaluation for further details.

### LENDING TEST

#### Lending Activity

Lending demonstrates good responsiveness to the credit needs of the assessment area, as evidenced by high levels of originations, good penetration of LMI areas, good distribution of loans among customers of different income levels and businesses of different sizes, and an adequate level of community development loans. None of the lending activities or products reviewed were innovative or complex.

Loans originated during the evaluation period in the assessment area by CB/PA alone aggregated 22% of average assets. As shown in the table below, loans originated by the bank and the abovementioned affiliates were approximately 50% of CB/PA's average assets during this period.

ORIGINATIONS IN THE ASSESSMENT AREA DURING THE EVALUATION PERIOD (a)				
Loan Type	# of Loans	% of Total	\$ (000)	% of Total
Home Mortgages (HMDA)	1,173	66.5%	63,732	40.0%
Small Business	582	33.0%	86,165	54.0%
Community Development	10	0.5%	9,527	6.0%
Other Loan Data	0	0.0%	0	0.0%
<b>Total</b>	<b>1,765</b>	<b>100.0%</b>	<b>159,424</b>	<b>100.0%</b>

Note: Percentages may not add to 100% due to rounding.

(a) This table reflects loans originated in the assessment period from January 1996 to March 1998.

HMDA loan originations, by loan purpose, are illustrated in the table below. We reviewed the HMDA loan originations by “purpose” because these are the primary consumer loan products of the bank. CB/PA did better than the market in percent origination of loans for home improvement, but continues to lag the market in percent origination of mortgage loans for home purchase despite increased lending for this product. In early 1998, CB/PA revised its” First Step Affordable Housing Program”, targeted to LMI home buyers, to make it more competitive. The First Step program, which began in late 1994, features a below market rate of interest, fixed for thirty years, no points, a discounted application fee, no private mortgage insurance for low-income borrowers, and flexible underwriting criteria. During the evaluation period, CB/PA originated 86 First Step mortgages which aggregated \$3.2 million.

TOTAL HMDA LOAN ORIGINATIONS IN ASSESSMENT AREA BREAKDOWN BY LOAN PURPOSE								
Loan Purpose	1998 (Jan-Mar)		1997		1996		Loan Mix of Other Area Financial Institutions (a)	
	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	#	\$
Home Purchase	26 20.0%	2,508 32.1%	94 16.5%	9,049 28.9%	76 16.0%	6,777 27.6%	43.6%	59.2%
Refinance	44 33.8%	3,495 44.8%	150 26.4	14,021 44.7%	167 35.2%	10,963 44.6%	34.0%	33.8%
Multifamily	0 0.0%	0 0.0%	0 0.0%	0 0.0%	1 0.2%	28 0.1%	0.2%	1.6%
Home Improvement	60 46.2%	1,807 23.1%	325 57.1%	8,265 26.4%	230 48.5%	6,819 27.7%	22.2%	5.4%
<b>Total 100%</b>	130 100.0%	7,810 100.0%	569 100.0%	31,335 100.0%	474 100.0%	24,587 100.0%	100.0%	

Note: Percentages may not add to 100% due to rounding.

(a) The market consists of all HMDA reporters in the bank’s assessment area. Market performance is based on the number and dollar volume of loans as a percent of total originations.

### Assessment Area Concentration

Loans originated by CB/PA in its assessment area (93% of the number and 80% of the dollar volume of HMDA and small business loans) accounted for a substantial majority of total loans originated during the evaluation period.

### Geographic Distribution of Loans

Lending in LMI areas is good, particularly for HMDA loans. CB/PA performed better than the market in 1996 (the latest year for which market data is available). The percent origination was

better for both the number and dollar volume of HMDA loans made in the low-income census tracts, and for the dollar volume in the moderate-income census tracts.

### *HMDA Loans*

Geographic distribution of HMDA loans is good. Percent origination by the CB/PA of all types of HMDA loans was better than market performance in the low-income census tracts as shown in the table below. Percent origination of mortgages for home purchase was better than market in LMI tracts. In Philadelphia, where 91% of the low-income tracts and 74% of the moderate-income tracts in the assessment area are located, the bank outperformed the market in percent origination in LMI census tracts for all types of HMDA loans, and in low-income tracts for home purchase loans.

TOTAL HMDA LOAN ORIGINATIONS GEODISTRIBUTION IN ASSESSMENT AREA								
Type of Census Tracts %	1998 (Jan-Mar)		1997		1996			
	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	Geodistribution of Other Area Financial Institutions (a) #                    \$	
<b>Low 9%</b>	4 3.1%	153 2.0%	28 4.9%	982 3.1%	33 7.0%	1,226 5.0%	2.8%	0.9%
<b>Moderate 17%</b>	16 12.3%	570 7.3%	59 10.4%	1,781 5.7%	57 12.0%	1,596 6.5%	13.0%	5.8%
<b>Middle 41%</b>	45 34.6%	2,264 29.0%	193 33.9%	8,829 28.2%	144 30.4%	6,162 25.1%	45.2%	37.3%
<b>Upper 30%</b>	65 50.0%	4,823 61.8%	289 50.8%	19,743 63.0%	239 50.4%	15,548 63.2%	38.5%	55.5%
<b>NA 3%</b>	0 0.0%	0 0.0%	0 0.0%	0 0.0%	1 0.2%	55 0.2%	0.5%	0.4%
<b>Total 100%</b>	130 100.0%	7,810 100.0%	569 100.0%	31,335 100.0%	474 100.0%	24,587 100.0%	100.0%	

**Note: Percentages may not add to 100% due to rounding.**

**(a) The market consists of all HMDA reporters in the bank's assessment area. Market performance is based on the number and dollar volume of loans as a percent of total originations.**

### Small Business Lending

Distribution throughout the assessment area is adequate. Market ranking in the different types of census tracts was consistent. CB/PA operates in a marketplace dominated by larger institutions. Nonetheless, it has achieved an overall rank of 21 among 166 lenders (# 17 in low-income tracts with a market share of 0.49%, # 21 in moderate-income tracts with a share of 0.37%, # 22 in middle-income tracts with a 0.65% share, and # 20 in upper-income tracts with a 1.03% share.)

TOTAL SMALL BUSINESS LOAN ORIGINATIONS GEODISTRIBUTION IN ASSESSMENT AREA								
Type of Census Tracts %	1998 (Jan-Mar)		1997		1996		Geodistribution of Other Area Financial Institutions (a)	
	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	#	\$
<b>Low 9%</b>	0 0.0%	0 0.0%	6 2.2%	516 1.1%	6 2.5%	1,481 4.7%	4.0%	3.9%
<b>Moderate 17%</b>	3 4.4%	375 4.6%	20 7.3%	2,624 5.7%	10 4.4%	541 1.7%	9.0%	7.9%
<b>Middle 41%</b>	28 41.1%	4,742 58.4%	73 26.6%	13,021 28.1%	83 34.9%	10,949 34.6%	42.0%	39.2%
<b>Upper 30%</b>	37 54.4%	3,003 37.0%	174 63.3%	30,175 65.0%	139 58.2%	18,660 59.0%	44.0%	47.6%
<b>NA 3%</b>	0 0.0%	0 0.0%	2 0.7%	67 0.1%	1 0.0%	11 0.0%	1.0%	1.4%
<b>Total 100%</b>	68 100.0%	8,120 100.0%	275 100.0%	46,403 100.0%	239 100.0%	31,642 100.0%	100.0%	

Note: Percentages may not add to 100% due to rounding.

(a) The market consists of all reporters in the bank's assessment area. Market performance is based on the number and dollar volume of loans as a percent of total originations.

### Borrowers' Profile

The distribution of borrowers reflects good penetration among retail customers of different income levels and business customers of different size. The three tables below show the distribution of HMDA loans by family income level and small business loans by loan size and the revenue size of the business.

#### *HMDA Loans*

The distribution of HMDA loans to customers of different income levels is good, particularly to

low-income persons as shown in the table below. In a very competitive marketplace, CB/PA performed as well as or better than the market in percent origination of HMDA loans to low-income persons, both in the number and dollar volume of HMDA loans. The First Step mortgage product accounted for nearly 18% of mortgages originated during the evaluation period.

TOTAL HMDA LOAN ORIGINATIONS BORROWERS' PROFILE IN ASSESSMENT AREA								
	1998 (Jan-Mar)		1997		1996		Borrower's Profile of Other Area Financial Institutions (a)	
Family Income Distribution %	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	#	\$
<b>Low 21%</b>	4 3.1%	146 1.9%	66 11.6%	1,596 5.1%	53 11.2%	1,582 6.4%	11.2%	4.2%
<b>Moderate 18%</b>	18 13.8%	586 7.5%	105 18.5%	3,255 10.4%	70 14.8%	2,232 9.1%	19.9%	12.1%
<b>Middle 23%</b>	37 28.5%	1,867 23.9%	135 23.7%	5,445 17.4%	118 24.9%	4,563 18.6%	25.9%	21.5%
<b>Upper 38%</b>	70 53.8%	5,176 66.3%	254 44.6%	17,577 56.1%	231 48.7%	16,127 65.6%	39.6%	57.0%
<b>NA 0%</b>	1 0.8%	35 0.4%	9 1.6%	3,462 11.0%	2 0.4%	83 0.3%	3.5%	5.2%
<b>Total 100%</b>	130 100.0%	7,810 100.0%	569 100.0%	31,335 100.0%	474 100.0%	24,587 100.0%	100.0%	

Note: Percentages may not add to 100% due to rounding.

(a) The market consists of all reporters in the bank's assessment area. Market performance is based on the number and dollar volume of loans as a percent of total originations.

*Small Business Lending*

To help meet the needs of those businesses which would not otherwise qualify for conventional financing, CB/PA offers Small Business Administration (SBA) guaranteed or sponsored loans. The bank is designated a Preferred Lender by the SBA. During the evaluation period, the bank originated 49 SBA loans totaling more than \$10.8 million. These are included in the small business numbers reported by the CB/PA.

The level of lending to businesses of different sizes is good. Percent origination to businesses with revenues of less than \$1 million is better than the market performance both in the number and dollar volume of loans originated. The distribution of small business loans by loan size is adequate.

SMALL BUSINESS LOAN ORIGINATIONS BY REVENUE SIZE IN ASSESSMENT AREA								
	1998 (Jan-Mar)		1997		1996		Origination Profile of Other Area Financial Institutions (a)	
Revenue Size	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	#	\$
<b>Less than or Equal to \$1 Million</b>	30 44.1%	3,178 39.1%	176 64.0%	24,187 52.1%	135 56.5%	9,752 30.8%	39.0%	23.0%
<b>Greater than \$1 Million</b>	17 25.0%	3,658 45.0%	99 36.0%	22,216 47.9%	104 43.5%	21,890 69.2%	61.0%	77.0%
<b>Total 100%</b>	68(a) 100.0%	8,120(a) 100.0%	275 100.0%	46,403 100.0%	239 100.0%	31,642 100.0%	100.0%	

**Note: Percentages may not add to 100% due to rounding.**

**(a) Includes loans to companies whose revenues are not known.**



SMALL BUSINESS LOAN ORIGINATIONS BY LOAN SIZE IN ASSESSMENT AREA								
Loan Size	1998 (Jan-Mar)		1997		1996		Origination Profile of Other Area Financial Institutions	
	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	# Loans %Total	\$ (000's) %Total	#	\$
Less than \$100	48 70.6%	1,680 20.7%	176 64.0%	7,120 15.3%	176 73.6%	7,844 24.8%	84.0%	20.0%
\$100-\$250	12 17.6%	2,005 24.7%	42 15.3%	6,572 14.2%	31 13.0%	5,486 17.3%	8.0%	19.0%
Greater than \$250	8 11.8%	4,435 54.6%	57 20.7%	32,711 70.5%	32 13.4%	18,312 57.9%	8.0%	61.0%
<b>Total 100%</b>	68 100.0%	8,120 100.0%	275 100.0%	46,403 100.0%	239 100.0%	31,642 100.0%	100.0%	

Note: Percentages may not add to 100% due to rounding.

### Community Development Lending Activities

The bank originated an adequate level of community development loans during the evaluation period. Community development loans are loans that (1) have a primary purpose of community development, as defined at 12 C.F.R. § 25.12(h), (2) have not been reported or collected by the bank or an affiliate for consideration as home mortgage, small business, small farm or consumer loans, unless they are multifamily dwelling loans, and (3) benefit the bank's assessment area or a broader statewide or regional area that includes the bank's assessment area. From January 1, 1996 to May 18, 1998 the bank originated nine community development loans aggregating over \$8.4 million. None of the loans granted were innovative or complex.

Examples of community development loans include:

- The bank provided a \$2,450,000 loan originated in June 1996 to a limited partnership which will provide acquisition, renovation and construction funds for 13,833 square foot retail site in a low-income neighborhood in Philadelphia. The commercial strip will be occupied by existing local stores and a well-known drug store chain, and will provide retail services for the community as well as permanent employment opportunities.
- The bank provided a \$4,200,000 loan originated in March 1997 to a corporation for the construction and permanent financing of a 150-bed assisted living facility located in a low-income area of Chester County. The facility will target LMI senior citizens as clients.
- The bank provided a \$1,785,000 loan originated in March 1997 to a corporation for construction and permanent financing of a supermarket and retail center in a low-income

section in the Germantown neighborhood of Philadelphia.

In addition, the bank originated seven loans totaling \$1.6 million that, while not meeting the definition of a community development loan under the regulation, fostered economic development in the assessment area.

## INVESTMENT TEST

Considering CB/PA's capacity and resources, as well as investment opportunities in the assessment area, the level of qualified investments is adequate. Total qualifying investments made during the evaluation period of \$544,380 are depicted in the table below.

<b>QUALIFIED INVESTMENTS (\$)</b>				
<b>Purpose</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>Total</b>
<b>Affordable Housing and Economic Development</b>	125,000	300,000	50,000	475,000
<b>Grants and Donations to Affordable Housing Organizations</b>	12,875	24,550	2,500	39,925
<b>Grants and Donations to Community Service Organizations</b>	6,980	1,455	1,020	9,455
<b>In-kind Donations</b>	10,000	10,000	0	20,000
<b>Total</b>	154,855	336,005	53,520	544,380

Most of the qualified investments (\$475,000) made during the evaluation period were investments in the Collaborative Lending Initiative (CLI). CB/PA was one of the originating banks which worked with the Delaware Valley Community Reinvestment Fund (DVCRF) in 1995 to establish CLI. The DVCRF uses bank and other investor funds to provide construction and permanent financing for affordable housing and community development purposes. CLI was designed to leverage DVCRF's limited resources with additional bank funds to provide construction financing for the development of both rental and for sale affordable housing in Pennsylvania and Camden. Since its inception, CLI has provided loans and loan commitments for 38 projects, totaling over \$21.6 million. These projects have produced 769 units of affordable housing of which 479 units have been established in CB/PA's assessment area.

Also depicted in the above table are numerous qualifying grants/donations to organizations that help provide economic development and/or affordable housing and community services to LMI individuals. Office furniture valued at \$20,000 donated to several community development organizations during the evaluation period represents the in-kind donations.

Two qualified investments which were made prior to the evaluation period were still available during the period, and they are included in the overall performance evaluation for the investment test. The first was a \$50,000 cash investment in the DVCRF in June 1994. The other was a \$250,000 preferred stock investment in the minority-owned United Bank of Philadelphia in 1995. The United Bank of Philadelphia received a Certified Community Development Financial Institution designation in 1997.

None of the investments were innovative or complex. Other private investors routinely provide these same types of investments.

The qualified investments respond to some of the credit needs of the assessment area. As previously stated, given the bank's capacity, the demographics of the assessment area, both in terms of LMI geographies and individuals, and investment opportunities, the level of responsiveness is adequate.

## **SERVICE TEST**

Delivery systems are accessible to limited portions of the bank's assessment area. The bank's record of opening and closing offices has not adversely affected accessibility to bank services. However, while branch openings support the bank's expansion into suburban markets, there are portions of the assessment area, particularly in LMI areas, with limited access to bank services. Branch hours are extensive and are convenient to most portions of the assessment area.

The distribution of branches and ATMs throughout the five county assessment area provides limited bank access to the overall customer base. Three of the 16 branch offices are located in the City of Philadelphia, while the remaining 13 branches are located in the following suburban counties: Chester - 1, Delaware - 7, and Montgomery - 5. There are no branch offices in Bucks County. Each office is equipped with an ATM and all suburban locations have drive-in facilities. In addition, there are two non-branch ATMs within the assessment area that are located in close proximity to existing branch offices in Philadelphia and Media. Philadelphia, which contains 91% of the low-income and 74% of the moderate-income census tracts within the assessment area, is serviced by only three branches which are located in the central, central/west and southern sections of the city. Branches in Delaware and Montgomery counties are geared to the eastern and southwestern regions of these counties, respectively. The bank has delineated a very large assessment area given its present size and scope of operations. CB/PA, which is 12 years old, has expansion plans which will result in offices in a broader section of the assessment area.

The following table reflects the distribution of branches and ATMs compared to the characteristics of tracts in the assessment areas.

<b>DISTRIBUTION OF DELIVERY SYSTEMS (BRANCHES AND REMOTE ATM FACILITIES)</b>			
<b>Type of Census Tract</b>	<b>Branches # / %</b>	<b>Non-Branch ATM Facilities # / %</b>	<b>Census Tracts in the Assessment Area # / %</b>
<b>Low</b>	1 / 6%	0 / 0%	87 / 9%
<b>Moderate</b>	1 / 6%	0 / 0%	168 / 17%
<b>Middle</b>	3 / 19%	1 / 50%	395 / 41%
<b>Upper</b>	11 / 69%	1 / 50%	286 / 30%
<b>Not Classified</b>	0 / 0%	0 / 0%	28 / 3%
<b>Total</b>	16 / 100%	2 / 100%	964 / 100%

**Note: Percentages may not add to 100% due to rounding.**

More than 3.7 million residents populate the assessment area. The low-income census tract location is on the campus of the University of Pennsylvania and is primarily surrounded by several hospitals and campus related retail shops. Non-campus residents of the community reside on the periphery of this area. The moderate-income branch is located in a residential neighborhood.

CB/PA offers extended lobby and drive-in hours to meet the needs and convenience of its customer base. All branches are open Saturdays and Sundays except the Center City Philadelphia location. Many offices are also open on holidays. A listing of branch hours is available in the bank's public file.

All branch locations offer a common set of traditional financial services to consumer and business customers. Deposit services include checking accounts geared towards customers over 50 years of age and a low cost/minimum balance account for those individuals desiring basic checking services. Saving products include a no fee account for young savers (less than 21 years old). The bank offers a variety of personal, mortgage, home equity and credit card loan products, including loan products and services which are designed to assist LMI borrowers with home improvement and home ownership.

In addition to branch operations, alternative delivery systems in the form of telephone and computer banking services are available throughout the assessment area. These systems provide customers with access to loan and deposit services and customer representatives 24 hours a day. Telephone banking is used extensively by all segments of the customer base.

Four branches opened within the assessment area during the review period. All of the branch openings were located in middle- and upper-income census tracts. There were no branch closings during the review period. The location of new branch openings is in line with the bank's expansion into growing suburban markets.

Marketing efforts are designed to reach all segments and geographies of the assessment area. In addition, the bank's uses its community outreach program and specialty advertising to supplement the promotion of the bank's affordable loan and deposit services to LMI geographies.

### **Community Development Services**

CB/PA provides an adequate level of community development services. Bank officers have provided financial and technical expertise to various community service and development organizations through board membership and/or holding various administrative and advisory positions. Beneficiaries of the bank's community development services include local economic revitalization initiatives, affordable housing and small business development activities.

The following is a listing and description of some of the bank's participation in community development activities.

#### *Affordable Housing*

- The Delaware Valley Mortgage Plan (DVMP) is an affordable housing program for LMI home buyers in Philadelphia and the surrounding suburban communities. Several members of the bank's management team serve on several key DVMP committees including the Executive, Policy and Planning, and Credit Committees.
- There are bank sponsored programs which provide below market, fixed rate home purchase and home improvement products for LMI home buyers and home owners. Several members of management coordinate and participate in these programs.

#### *Small Business Development*

- There are community based loan funds which provide business planning and financing services for entrepreneurs and new businesses in Philadelphia, Chester and Montgomery counties. These organizations focus on low-income and minority neighborhoods. Several members of management consult on a regular basis with these groups.
- The SBA One Stop Capital Shop was established to provide new and existing small business owners with a single source for technical assistance, professional service and financing. Services have been focused on business located in the Philadelphia and Camden Empowerment Zones. A bank officer helps to provide technical assistance.

#### *Economic Development*

- The Philadelphia Development Partnerships (PDP) promotes economic development in LMI neighborhoods of Philadelphia. PDP focuses on job creation and housing and serves as a catalyst/advocate for issues encouraging neighborhood economic development. A

bank officer serves on the Board of PDP.

- The Greater Philadelphia Urban Affairs Coalitions (GPUAC) is an organization comprised of government representatives, business leaders and financial institutions. GPUAC tries to develop solutions to problems facing Philadelphia's low income communities. The CRA Officer is a member of the Board of Directors of this group.
- The Delaware County Industrial Development Corporation promotes economic development within Delaware County and acts as a conduit through which state and federally funded programs are granted. A bank officer serves on the Board of Directors and the Finance Committee.
- The Delaware County Commerce Department promotes economic development within the county, including marketing efforts which are designed to attract businesses to the county. A bank officer is the Chairman of the Loan Review Committee.
- The Philadelphia Community Development Corporation Small Business Loan Fund provides technical assistance to start-up and new businesses, particularly those located in LMI areas. A bank officer serves on the Credit Committee of this organization.

## **FAIR LENDING EXAMINATION**

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. CB/PA has an effective system in place to comply with fair lending regulations. Training has been effective in introducing fair lending topics throughout the bank.

**APPENDIX A**

**SCOPE OF EXAMINATION**

<b>TIME PERIOD REVIEWED</b>	January 1, 1996 to March 31, 1998
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<b>FINANCIAL INSTITUTION</b>	<b>PRODUCTS REVIEWED</b>
Commerce Bank/PA, N.A. Philadelphia, PA	Mortgage, Home Improvement, Community Development and Small Business Loans

<b>AFFILIATES</b>	<b>AFFILIATE RELATIONSHIP</b>	<b>PRODUCTS REVIEWED</b>
Commerce Bank, N.A. Cherry Hill, NJ	Subsidiary of Holding Company	Mortgage, Home Improvement, Community Development and Small Business Loans
Commerce Bank/Shore, N.A. Forked River, NJ	Subsidiary of Holding Company	Mortgage, Home Improvement, Community Development and Small Business Loans

<b>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</b>			
<b>Assessment Area</b>	<b>Type of Exam</b>	<b>Branches Visited</b>	<b>Other Information</b>
Philadelphia, Chester, Montgomery, Delaware and Bucks Counties located in the Philadelphia MSA # 6160.	On-Site at Holding Company	None	Not applicable