
Comptroller of the Currency
Administrator of National Banks

SMALL BANK

Northeastern District
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New York, New York 10036

PUBLIC DISCLOSURE

February 22, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Grand Bank, N.A.
Charter Number 23743
4437 Route 27
Kingston, New Jersey 08528**

**Office of the Comptroller of the Currency
Northeast District
New York Metropolitan Field Office
Community/Mid-Size Banks
830 Morris Turnpike, 2nd 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.

Definitions

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.

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.

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.

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) a dwelling loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

LMI - Low and moderate income.

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 or Small Farm - A business or farm with annual revenues of \$1 million or less .

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.

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 **Grand Bank, N.A.** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **February 22, 2000**. 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." Primary factors supporting the bank's overall rating include:

- ◆ The bank's average quarterly loan-to-deposit ratio exceeds standards for satisfactory performance,
- ◆ The bank's level of lending within its assessment area (AA) meets standards for satisfactory performance,
- ◆ The distribution of loans to various borrowers, given the bank's characteristics, exceeds standards for satisfactory performance in terms of penetration among individuals of different income levels and businesses of different sizes, and
- ◆ The geographic distribution of loans meets standards for satisfactory performance.

Description of Institution

Grand Bank, N.A. is a one-office, full-service, retail, intrastate bank that was established on February 23, 1999. Grand Bank does not have any affiliates or subsidiaries. Grand Bancorp, Inc., a one-bank holding company, owns Grand Bank. Grand Bancorp is also located in Kingston, New Jersey and had total assets of \$64.9 million as of December 31, 1999.

As of December 31, 1999 total bank assets were \$64.7 million, including investments of \$27.4 million and net loans of \$28.9 million. The loan portfolio consists of real estate loans totaling \$21.5 million (74%), commercial loans totaling \$7.0 million (24%), and loans to individuals totaling 0.6 million (2%). Total deposits were \$37.4 million. Real estate lending was primarily comprised of commercial real estate loans. The bank was not required to report for Home Mortgage Disclosure Act (HMDA) purposes in 1999. Grand Bank's primary business focus is lending to small businesses.

The bank's only office is temporarily located in Kingston, New Jersey until construction of the permanent site is completed in Monmouth Junction, New Jersey. The temporary site is located in a suburban area of Somerset County and is in a middle-income geography. The temporary site provides off-street parking and offers electronic services through ATM cards and by means of a link from the bank's website to NetTeller®. Grand Bank's permanent site is expected to be completed by the summer of 2000. The permanent site will be located on Route 1 in Monmouth Junction, New Jersey. This is a commercial area in an upper-income geography. Grand Bank does not operate any ATMs, but provides fee-free ATM cards. Grand Bank also operates a loan production office in Hamilton Square, New Jersey.

There are no impediments, legal or otherwise, that hinder the bank's ability to help meet the credit needs of its AA.

Scope

The evaluation period for this evaluation is from January 1, 1999 to December 31, 1999. This is the first CRA evaluation of this institution. The bank's business focus is lending to small businesses. The bank also makes a limited number of consumer loans to its business customers. The majority of consumer loans are home equity loans and lines of credit. Rather than using a sampling technique, all loans to small businesses and home equity credits were used for this evaluation.

Description of Grand Bank's Assessment Area

Grand Bank's single AA consists of 62 geographies located in Mercer, Middlesex, and Somerset counties of New Jersey. The AA consists of certain geographies in the Trenton Primary Metropolitan Statistical Area (PMSA) and the Middlesex-Somerset-Hunterdon PMSA. These PMSAs are part of the New York/New Jersey Consolidated Metropolitan Statistical Area. The geographies within the AA are contiguous, meet the requirements of the regulation, and do not arbitrarily exclude low- or moderate-income geographies. The AA is less than a whole MSA or geopolitical subdivision because the bank's characteristics are best suited for an AA that surrounds the banking office, without taking in an area that is beyond the bank's resources.

The income designations of the AA geographies are 5% low-income, 8% moderate-income, 50% middle-income, and 37% upper-income. Seventy-six percent of housing units in the AA are one- to four-family units and 22% are multifamily units. Of the total housing units, 66% are owner-occupied, 29% are renter-occupied, and 5% are vacant. The median housing price in the AA is \$178 thousand. The cost of housing makes home ownership difficult for low- and moderate-income (LMI) households. Ninety-five percent of housing units are occupied.

The population of the AA is 322 thousand of which 14% of families are low-income, 17% are moderate-income, 25% are middle-income, and 44% are upper-income. The 1998 Housing and

Urban Development (HUD) Updated Median Family Income for the AA is \$68 thousand.

According to 1999 business demographics, there are 15,706 businesses in the AA that reported income data. Farms represented three percent of the business population. Small businesses represented 70% of the 15,272 non-farm businesses reporting revenues in the AA.

In terms of number of employees, major employers in Somerset County are Hoechst Corporation (10,000+) and Ethicon (5,000-9,999); and in Middlesex County are Rhone-Poulenc, Inc. (10,000+), Johnson & Johnson, Inc. (10,000+), Rutgers University (5,000-9,999), and Silverline Building Products (5,000-9,999). There are no employers in Mercer County that have 5,000 or more employees.

As of June 30, 1999, there were 61 financial institutions located in Mercer, Middlesex, and Somerset Counties. Competing institutions consisted of State and Federally chartered banks and savings and loans headquartered in New Jersey, Pennsylvania, North Carolina, New York, and California. Grand Bank ranked 18th of 26 banks located in Somerset County and had 0.37% of the county's deposit market share. Summit Bank, United National Bank, and Fleet Bank had 25.40%, 17.53%, and 11.18% of the county's deposit market share, respectively. Grand Bank ranked second of the two banks located in Kingston, New Jersey and had 22.89% of the town's deposit market share. Summit Bank had 77.11% of the town's deposit market share in Kingston, New Jersey. There are 27 financial institutions located in the Grand Bank's AA.

Community Contacts

The examiner contacted a community development division of the Somerset County government during the examination to obtain community profile information, inquire about opportunities for financial institutions to help meet local credit needs, inquire about perceptions on the performance of financial institutions in helping to meet local credit needs, and obtain a context of the community on which to evaluate Grand Bank's CRA performance. The contact did not know of any unmet credit needs in the community.

Conclusions About Performance Criteria:

Grand Bank's CRA performance is satisfactory. This conclusion was based on the facts, data, and analyses contained in this performance evaluation.

Loan to Deposit Analysis

Grand Bank's loan to deposit analysis exceeds standards for satisfactory performance. Grand Bank was established on February 23, 1999. The average quarterly loan-to-deposit ratio (LTD) was calculated using four quarters of 1999 only. The average LTD for this time period was 104% compared to a peer average of 77%. The peer group consists of all insured commercial banks having assets less than or equal to \$50 million and established within the last three years. The level of the

bank's LTD ratios is due to its loan growth exceeding its deposit growth during the first 10 months of operation.

Lending in Assessment Area

Grand Bank's lending meets standards for satisfactory performance. After testing for accuracy, we used management prepared internal reports to determine that a majority of Grand Bank's loans are within the AA. Grand Bank has originated 93 loans to small businesses totaling \$27.9 million and 12 home equity loans totaling \$1.3 million. Of these totals, 69% of the number and 69% of the dollar amount were within the AA. The data in the following table depicts that a majority of loans to small businesses and home equity loans were within the AA.

Loan Originations - January 1, 1999 to December 31, 1999 (\$000)

	##/\$ Totals	##/\$ Originated in AA	% of ##/\$ Originated in AA
Home Equity Loans and Lines of Credit	12/\$1,303	8/\$1,019	67/78
Loans to Small Businesses	93/\$27,852	64/\$18,924	69/68
Totals	105/\$29,155	71/\$19,943	69/69

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Grand Bank's lending to borrowers of different incomes and businesses of different sizes exceeds standards for satisfactory performance based on its characteristics.

Grand Bank's lends to businesses of different sizes. Based upon business loan originations, 87% of the number and 91% of the dollar amount were to small businesses (businesses with gross annual revenues of \$1 million or less). Grand Bank's lending to small businesses distributed by loan size within the AA is depicted in the following table:

Loans to Small Businesses

	\$100M or less	\$101M - \$250M	Greater Than \$250M
Number of Loans	44%	23%	33%
Dollar Amount of Loans	8%	15%	77%

Although consumer lending is not Grand Bank's business focus, home equity credits are made on an accommodation basis. An analysis of the distribution of these loans to borrowers by income level is depicted in the following table.

Lending to Borrowers of Different Incomes

	Low-Income (\$/)	Moderate-Income (\$/)	Middle-Income (\$/)	Upper-Income (\$/)
Home Equity Loans & Lines of Credit	0%/0%	13%/12%	0%/0%	88%/88%
Families in Assessment Area	14%	17%	25%	44%

In order to qualify for home equity credit, a potential borrower must first own a home. The AA has an

updated median family income of \$68,208, resulting in a low-income designation of \$34,104 and less. The AA's weighted average median housing cost is \$177,826, which is 5.2 times the low-income designation and 3.25 times the moderate-income designation. Thus, homeownership within the AA is difficult for low- to moderate-income buyers. Additionally, 4.45% of the AA's population is below the poverty level.

Geographic Distribution of Loans

Grand Bank's geographic distribution of loans meets standards for satisfactory performance. The following table depicts the distribution of loans to small businesses and home equity credits within the AA based on the four income categories compared to the population or number of small businesses within each designation.

Geographic Distribution of Originations Within the AA

	Low-Income (% of #/\$)	Moderate-Income (% of #/\$)	Middle-Income (% of #/\$)	Upper-Income (% of #/\$)
Home Equity Credits	0/0	0/0	63/57	37/43
% of Owner-Occupied Housing Within Designations	1	5	52	41
Loans to Small Business	0/0	3/2	56/52	41/46
% of Small Business Within Designations	2	4	48	46

Response to Complaints

Grand Bank has not received any CRA-related complaints during this evaluation period.

Record of Compliance with Antidiscrimination Laws

No violations of the substantive provisions of the antidiscrimination laws and regulations were identified. Our fair lending review included policies, procedures, training programs, transactional testing for technical compliance with applicable regulations, and a comparison of loan terms granted. Grand Bank did not deny any consumer loans during the evaluation period.