



Comptroller of the Currency
Administrator of National Banks

LARGE BANK

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Public Disclosure

Community Reinvestment Act Performance Evaluation

November 24, 1998

Union Center National Bank
Charter Number 12425
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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 **Union Center National Bank** prepared by the **Comptroller of the Currency**, the institution's supervisory agency, as of **November 24, 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.

Assessment Area (AA) - An area including the geographies in which the bank has its main office, its branches, and its deposit-taking ATMs, as well as the surrounding geographies where the bank has originated or purchased a substantial portion of its loans.

Metropolitan Statistical Area (MSA) - Area defined by the United States Office of Management and Budget containing a large population nucleus, together with adjacent communities having a high degree of economic and social integration.

Census Tract (CT) - A small geographic area.

Home Mortgage Disclosure Act (HMDA) - A statute that requires certain mortgage lenders that have a home or branch office in an MSA to file annual summary reports of their mortgage lending activity. These reports include such data as the race, gender, and income of the applicant(s), the amount of the loan requested, and its disposition.

Household - Defined by the United States Census Bureau as all persons occupying a housing unit.

Family - Defined by the United States Census Bureau as only of householders related by birth, marriage, or adoption. Therefore, a single person living alone or two or more unrelated individuals living together are not considered to be a family.

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 (HUD) annually 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 and below it.

Low, Moderate, Middle, and Upper Income - Low income levels that are less than 50% of the MFI, moderate is 50% to 79% of the MFI, middle is 80% to 119% and upper income is 120% or more of the MFI.

Small Business Loan - A commercial loan with an original loan amount of \$1 million or less.

Small Business - A business with gross annual revenues of \$1 million or less.

CRA RATING

Institution's CRA Rating: This institution is rated Satisfactory. The factors supporting the bank's overall rating include:

- an adequate responsiveness to credit needs in the assessment area;
- a majority of loans are made within the assessment area;
- a reasonable distribution of loans within the assessment area geographies;
- a reasonable distribution of loans to individuals of different income levels and businesses of different sizes;
- a high level of community development lending;
- an adequate level of community development investments; and
- delivery systems that are reasonably accessible to essentially all portions of the assessment area.

The following table indicates the performance level of Union Center National Bank with respect to the lending, investment, and service tests.

Performance Levels	Union Center National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X	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

Union Center National Bank (Union Center), headquartered in Union, New Jersey, is a wholly owned subsidiary of Center Bancorp Inc. Bank subsidiaries include Center Investment Corporation, which holds investment securities and Center Advertising Inc., which produces in-house advertisements for bank products and services. The financial condition of these subsidiaries would not preclude the bank from serving its assessment area. There are no financial or legal obstacles impacting Union Center's ability to help meet its community's credit needs.

As of September 30, 1998, the bank had total assets of \$466 million, which includes \$143 million in loans and \$295 million in investments. Deposits totaled \$378 million. The bank has experienced a high turnover rate in the lending staff, which has inhibited loan growth.

The bank operates eleven branches, six of which are located in Union Township, and one each in Springfield, Vauxhall, Berkeley Heights, Madison, and Morristown, New Jersey. Additionally, the bank operates a 24-hour ATM at Union Hospital and Union County College. Since the prior evaluation, Union Center opened one branch in Morristown and closed one branch in Union Township. The closed branch was located in a middle-income geography in close proximity to a moderate-income geography.

The bank's 1996-1998 strategic plan emphasizes consumer lending programs including residential real estate, installment, and home equity lending.

The assessment area is heavily banked. A review of the 1997 Home Mortgage Disclosure Act data indicated there were 355 reportable lenders. Additionally, a review of a bank business directory indicates there are over 160 offices of other financial institutions within the assessment area. Competition continues to be provided from several larger regional institutions as well as local institutions and non-bank financial intermediaries. Primary competitors are Summit Bank, First Union National Bank, CoreStates (which was acquired by First Union National Bank), Chase, Investors Savings, and Union County Savings Bank.

Table 1 portrays the principal loan mix of the bank.

Table 1
Types of Loans Outstanding
September 30, 1998, \$ (millions)

Type	Amount	%
Residential Real Estate	81	56
Commercial Real Estate	21	15
Commercial	27	19
Consumer	13	9
Other	1	1
Total	143	100

Description of Assessment Area (AA)

Union Center has defined one assessment area consisting of Union County in its entirety, and contiguous portions of Essex and Morris Counties. These three counties are located in the Newark, New Jersey Metropolitan Statistical Area (MSA).

The AA meets regulatory guidelines and does not arbitrarily exclude any low- or moderate-income areas. The majority of low- and moderate-income geographies are in the southeast and southwest portions of both the county and the bank's assessment area, where the bank has no branches. The majority of low- and moderate-income census tracts (geographies) are concentrated in the cities of Elizabeth, Linden, and Plainfield, which are distant from any of the bank's branches. As noted in the **Description of the Assessment Area**, the majority of branches are located in the north central part of Union County, consisting of mainly middle- and upper-income geographies.

Table 2 reflects the demographics of the AA.

Table 2

ASSESSMENT AREA DEMOGRAPHICS			
Designation	# of Geographies	% of Total Geographies	% of Families Residing in the Geographies
Low	3	2%	18%
Moderate	41	27%	18%
Middle	59	39%	24%
Upper	43	29%	40%
N/A*	4	3%	0%
TOTAL	150	100%	100%

* No income reported for these tracts.

The AA is populated by 681,000 individuals. The AA 1990 census median family income is \$50,047; the 1998 updated median family income is \$64,700. The median housing value in the AA is \$186,767. The median age of housing stock is 48 years. Total occupied housing units is 96%, with owner-occupied housing at 59% and rental occupied housing at 37%. Vacant housing units in the AA are 4%.

Within the AA, there are 27,364 businesses of which 75% are defined as small businesses. A small business is defined as a company with gross annual revenues of \$1 million or less. Major employers in the assessment area are pharmaceutical and medical services companies including Merck, Schering Plough, and Overlook Hospital. The Newark MSA non-seasonally adjusted unemployment rate of 4.3 % as of October 1998 equals the statewide rate and is down from 4.9% a year ago.

Credit needs of the assessment area based on two community contacts include financing for construction of affordable, single and multifamily housing and affordable, home improvement loans. Micro business loans is another identified need.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Scope of Review

This review covered the time period from January 1, 1996 to September 30, 1998 for all Home Mortgage Disclosure Act (HMDA) and community development loans. Small business loans from January 1, 1997 through September 30, 1998 were also reviewed. Small business data for 1996 was not included due to inaccurate reporting by the bank. Additionally, at the request of bank management, all consumer loans originated from January 1, 1996 to June 30, 1998 were reviewed. Consumer loan originations represented 67% of total originations during the review period. Also, investments purchased and matured and services initiated over the time period were reviewed.

LENDING TEST

Lending Activity

Loans originated during the evaluation period reflect adequate responsiveness to the credit needs of the assessment area. The distribution of assessment area originations since the previous examination is as follows:

Table 3

LOAN DISTRIBUTION OF ORIGINATIONS IN THE ASSESSMENT AREA DURING THE EVALUATION PERIOD					
LOAN TYPE	# LOANS	% of TOTAL	\$ (000's)	% of TOTAL	% Inside AA # / \$
Residential Mortgages (HMDA)	333	21%	19,560	28%	78% / 67%
Small Business	176	11%	22,087	31%	87% / 85 %
Community Development	3	*	3,263	4%	100% / 100%
Consumer	1,042	67%	26,148	37%	82% / 76%
TOTAL	1,554	100%	71,058	100%	81% / 77%

Assessment Area Concentration

The bank originates a majority of its loans within the assessment area. Table 3 above shows that the 333 HMDA loans and \$19.6 million represent 78% of the bank's total HMDA originations and 67% of the dollars. Home improvement loans accounted for 51% of the number of loans, refinances accounted for 35%, and home purchase loans accounted for 14%. The 176 small business loans and \$22.1 million represent 87% of total small business loans and 85% of the

dollars originated during the evaluation period. The 1,042 consumer loans and \$26.1 million represent 82% of total consumer loans and 76% of the dollars. Overall, 81% of all loan originations and 77% of the dollars were originated in the assessment area.

Geographic Distribution of Loans

Loans originated during the evaluation period are adequately distributed throughout the assessment area. Tables 4 - 6 show the distribution of loans by product type.

HMDA Loans

Geographic distribution of the bank’s HMDA lending is adequate, given the distribution of the bank’s branches. As noted in **Description of the Assessment Area**, the majority of the low- and moderate-income geographies are distant from any of the bank’s branches. These geographies are also served by several offices of other financial institutions.

The bank underperformed the market in low- and moderate-income tracts. We used 1997 peer HMDA data because market information is available for this period. The market consisted of all HMDA reporters in the bank’s assessment area. Lender market share data also shows low penetration throughout the assessment area with no loans in low-income, 0.15% in moderate-income, 1.30% in middle-income, and 0.56% in upper-income geographies. Overall market share was 0.79%.

Table 4

TOTAL HMDA LOAN ORIGINATIONS - Geodistribution								
Geographies		September 1998 YTD		1997		1996		
Type	# %	# Loans %Total	\$ %Total	# Loans %Total	\$ %Total	# Loans %Total	\$ %Total	1997 Market Perf. (b)
Low	3 2%	0	0	0	0	0	0	1%
Moderate	41 27%	1 1%	65 1%	3 2%	82 2%	3 2%	50 1%	14%
Middle	59 39%	61 59%	4,186 53%	75 65%	2,927 55%	73 65%	3,354 52%	39%
Upper	43 29%	42 40%	3,570 46%	38 33%	2,301 43%	37 33%	3,025 47%	46%
Total	146 (a) 97%	104 100%	7,821 100%	116 100%	5,310 100%	113 100%	6,429 100%	100%

(a) There is a total of 150 geographies in assessment area; 4 tracts have no income information.

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

Small Business Lending

Small business loans originated during the evaluation period are reasonably distributed throughout the assessment area. Table 5 shows the distribution of loans to businesses with gross annual revenues of \$1 million or less. Eighty-one percent of these businesses are in the middle- and upper-income geographies where Union Center originated 95% of the number of small business loans during the evaluation period. Union Center originated 1% of the loans in the low-income tracts and 4% in the moderate-income tracts. Two percent of small businesses are in the low-income tracts, while 17% are in the moderate-income tracts.

Table 5

TOTAL SMALL BUSINESS LOAN ORIGINATIONS to SMALL BUSINESSES (b)						
Geodistribution						
Geographies		% of Small Businesses (b)	September 1998 YTD		1997	
Type	# % (a)		# LOANS %TOTAL	\$ %TOTAL	# LOANS %TOTAL	\$ %TOTAL
Low	3 2%	2%	0	0	1 2%	40 *
Moderate	41 27%	17%	3 8%	538 16%	1 2%	263 3%
Middle	59 39%	45%	29 72%	1,984 59%	47 70%	3,174 32%
Upper	43 29%	36%	8 20%	859 25%	18 26%	6,553 65%
Total	146 97%	100%	40 100%	3,381 100%	67 100%	10,030 100%

(a) There is a total of 150 geographies in the assessment area; 4 tracts have no income information.

(b) Small business establishments with revenues of \$1 million or less.

(*) Less than 1%

Consumer Lending

The distribution of the bank's consumer lending is reasonable in relation to the branch distribution. See **Description of the Assessment Area** for additional information. During the review period, 5% of the loans were made in moderate-income geographies. The balance of consumer lending was in the middle- and upper-income geographies of the assessment area.

Table 6

TOTAL CONSUMER LOAN ORIGINATIONS - Geodistribution							
Geographies		June 1998 YTD		1997		1996	
Type	# %	# Loans %Total	\$ %Total	# Loans %Total	\$ %Total	# Loans %Total	\$ %Total
Low	3 2%	0	0	0	0	0	0
Moderate	41 27%	11 5%	73 1%	22 5%	287 3%	23 6%	198 2%
Middle	59 39%	137 62%	3,078 50%	269 64%	6,341 57%	266 67%	5,203 59%
Upper	43 29%	73 33%	3,023 49%	132 31%	4,523 40%	109 27%	3,422 39%
Total	146 (a) 97%	221 100%	6,174 100%	423 100%	11,151 100%	398 100%	8,823 100%

(a) There is a total of 150 geographies in assessment area; 4 tracts have no income information.

Borrowers' Profile

Loans originated during the evaluation period reflect adequate penetration among retail customers of different income levels and business customers of different sizes. Tables 7 - 10 below show the distribution of HMDA, small business, and consumer loans.

HMDA Loans

The bank's distribution of HMDA loans reflects adequate penetration among borrowers of different income levels. Table 7 below shows that in 1997, Union Center outperformed the market in lending to low-income persons and paralleled the market in lending to moderate-income persons. We used 1997 peer HMDA data because market information is available for this period. The market consisted of all HMDA reporters in the bank's assessment area. During the entire review period, Union Center's lending to low-income borrowers averaged 9% while lending to moderate-income borrowers averaged 19%. Additionally, lending to middle- and upper-income borrowers averaged 29% and 43%, respectively. In the bank's assessment area, 19% of the families are considered low-income, while 18% of the families are considered moderate-income, 24% are middle-income, and 39% are upper-income.

Additional market share data also shows adequate penetration among retail customers of different income levels with a 1.76% market share of loan originations to low-income persons, 0.71% of loans to moderate-income, 0.94% to middle-income, and 0.71% to upper-income persons. Overall market share to borrowers of all income levels was 0.84%.

Table 7

TOTAL HMDA LOAN ORIGINATIONS - Borrowers' Profile								
FAMILY INCOME		September 1998 YTD		1997		1996		1997 Market Perf. (a)
Distribution of Families	%	# Loans %Total	\$ %Total	#Loans %Total	\$ %Total	# Loans %Total	\$ %Total	
Low	19%	8 8%	345 4 %	14 12%	385 7%	9 8%	159 3%	5%
Moderate	18%	18 17%	1,305 17%	18 16%	997 19%	26 23%	1,291 20%	17%
Middle	24%	28 27%	2,228 29%	37 32%	1,665 31%	31 27%	1,614 25%	27%
Upper	39%	50 48%	3,943 50%	47 40%	2,263 43%	47 42%	3,365 52%	45%
Total	100%	104	7,821	116	5,310	113	6,429	94%*

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

(*) 6% of loans originated by the market were to borrowers where no income information was reported.

The distribution of small business loans to all businesses is adequate. Table 8, small business loans by revenue size, shows adequate penetration of business customers of different sizes.

Table 8

SMALL BUSINESS LOAN ORIGINATIONS TO ALL BUSINESSES				
REVENUE SIZE	# OF LOANS	% of TOTAL	\$ LOANED (000s)	% of TOTAL
less than or equal to \$1 million	107	61%	13,411	61%
greater than \$1 million	68	39%	8,651	39%
unknown revenue	1	*	25	*
Total	176	100%	22,087	100%

(*) Less than 1%.

The origination of loans less than \$100 thousand represents a majority of loans to businesses with gross annual revenues of \$1 million or less. This represents adequate responsiveness to an identified need for small loans to small businesses. Table 9 below shows that 73% of the number and 19% of the dollar amount of such loans were for less than \$100 thousand in loan size.

Table 9

SMALL BUSINESS LOAN ORIGINATIONS TO SMALL BUSINESSES				
LOAN SIZE (000s)	# OF LOANS	% of TOTAL	\$ LOANED (000s)	% of TOTAL
Less than \$100	78	73%	2,640	19%
\$100-\$250	14	13%	2,215	17%
\$250-\$1,000	15	14%	8,556	64%
Total	107	100%	13,411	100%

Consumer Loans

Consumer loan originations reflect adequate penetration among different income levels. During the review period, 15% of the loans were to low-income persons and 28% were to moderate-income persons. By comparison, 19% of the families in the assessment area are considered low-income while 18% are moderate-income. This reflects the bank's responsiveness and planned strategy of targeting consumer lending.

Table 10

TOTAL CONSUMER LOAN ORIGINATIONS - Borrowers' Profile							
FAMILY INCOME		June 1998 YTD		1997		1996	
Distribution of Families	%	# Loans %Total	\$ %Total	#Loans %Total	\$ %Total	# Loans %Total	\$ %Total
Low	19%	41 19%	393 6%	78 18%	843 8%	35 9%	328 4%
Moderate	18%	44 20%	796 13%	95 23%	1,621 15%	149 37%	2,408 27%
Middle	24%	22 10%	370 6%	64 15%	1,616 14%	54 14%	1,304 15%
Upper	39%	114 51%	4,615 75%	186 44%	7,071 63%	160 40%	4,783 54%
Total	100%	221	6,174	423	11,151	398	8,823

Community Development Lending Activities

Union Center has made a relatively high level of community development loans. 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 September 30, 1998, the bank originated three community development loans, totaling \$3.3 million. Two of these loans were in moderate-income geographies.

The bank's community development lending included:

- In 1997, the bank financed a \$1.9 million construction mortgage to a non-profit organization that provides community development needs, including day care services, to children of families who are low- and moderate-income. The center, located in Elizabeth, NJ, is in a moderate-income geography.

- In 1997, the bank financed a \$1.1 million construction mortgage to a non-profit organization that provides community development needs, including day care and job training to disabled individuals who are low- and moderate-income. The center, located in Elizabeth, NJ, is in a moderate-income geography.
- In 1997, the bank financed a \$263 thousand mortgage loan to a limited partnership formed specifically to create affordable housing in the State of New Jersey through the use of income tax credits. The loan is secured by seven affordable rental units.

Innovative or Flexible Lending Practices

Union Center makes adequate use of flexible loan programs that benefit low- and moderate-income borrowers or geographies. These programs have been instrumental in providing affordable lending for consumer purposes and small business development.

- The bank has an unsecured personal loan product for low- and moderate-income individuals which offers a lower dollar amount and a rate lower than the standard unsecured rate. During the evaluation period, the bank originated 97 Afford-A-Loans totaling \$363,000 thousand. This lending has been evaluated under the consumer loan activity.
- The bank participates in the U.S. Small Business Administration and New Jersey Economic Development Agency loan programs.

INVESTMENT TEST

The bank has an adequate level of qualified investments. Total qualified investments and grants made through the close of the evaluation were \$573,378. The substantial majority of this amount includes a privately developed mortgage back security totaling \$561,340. The security includes a pool of five loans made to moderate-income individuals residing in the bank's AA. The security was purchased in November 1998.

The bank also made three donations during the review period that totaled \$12,038. The donations were made to organizations that provide community services to people of low- or moderate-income.

None of the investments are considered innovative or complex. Other private investors routinely provide these same kind of investments.

SERVICE TEST

Union Center’s delivery systems are reasonably accessible to essentially all portions of their assessment area. Branch hours are reasonable and convenient to Union Center’s customers. All branches, with the exception of a branch located in a school, offer extended and Saturday hours. The bank has at least one ATM at each branch location, with the exception of the high school and Springfield branches. Table 11 shows the distribution of the bank’s branches in the assessment area.

During the review period, one branch was opened and one branch was closed. Both were located in middle-income geographies. The closing did not adversely affect low- and moderate-income individuals or geographies within the bank’s assessment area. Another branch of Union Center is located approximately one mile from the branch that was closed.

Table 11

Distribution of Branches		
Census Tract Income Level	Branches	Geographies in the Assessment Area
	<i># / %</i>	<i># / %</i>
Low	0 / 0 %	3 / 2%
Moderate	0 / 0%	41 / 27%
Middle	9 / 82%	59 / 39%
Upper	2 / 18%	43 / 29%
NA	0 / 0%	4 / 3%
Total	11 / 100%	150 / 100%

The majority of low- and moderate-income geographies are in the southeast and southwest portions of both the county and the bank’s assessment area, where the bank has no branches.

The bank offers the traditional line of banking products and services at all of its branches. Additionally, the bank offers a bank-by-mail program.

Community Development Services

Union Center has limited participation in available community development services. The bank held a first time homebuyer seminar targeted to low- and moderate-income individuals. Additionally, a senior officer of the bank serves on the board of a special improvement district in a local township. Another senior officer assisted in a fund raising campaign for a qualifying community development organization.

FAIR LENDING EXAMINATION

A concurrent fair lending review did not identify any violations of the various anti-discrimination laws and regulations. Union Center has an effective system in place to comply with fair lending regulations.

Appendix A

SCOPE OF EXAMINATION

Time Period Reviewed	January 1, 1996 to September 30, 1998		
Financial Institution Union Center National Bank Union, New Jersey			Products Reviewed Mortgage, small business, and community development loans, qualified investments and services.
Affiliate(s)	Affiliate Relationship		Products Reviewed
Center Investment Corporation	Bank Subsidiary		Qualified investments
Center Advertising, Inc.	Bank Subsidiary		None
List of Assessment Areas and Type of Examination			
Assessment Area	Type of Exam	Branches Visited	Other Information
MSA 5640 (Entire Union County, and contiguous portions of Essex and Morris Counties)	On-Site	Main Office & Center Branch	