

# **PUBLIC DISCLOSURE**

**January 4, 2010**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Peapack-Gladstone Bank  
RSSD No. 236706**

**500 Hills Drive  
Suite 300  
Bedminster, New Jersey 07921**

**FEDERAL RESERVE BANK OF NEW YORK  
33 LIBERTY STREET  
NEW YORK, NEW YORK 10045**

**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.

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## INSTITUTION RATING

Peapack-Gladstone Bank (“Peapack”) is rated “Satisfactory.” The following table indicates the performance level of the institution with respect to the lending, investment and service tests:

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending* Test	Investment Test	Service Test
Outstanding			
High Satisfactory		<b>X</b>	
Low Satisfactory	<b>X</b>		<b>X</b>
Needs to Improve			
Substantial Noncompliance			

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

The major factors supporting the institution’s rating follow:

- Lending activity levels reflect adequate responsiveness to assessment area credit needs.
- The distribution of borrowers reflects good penetration among borrowers of different income levels and businesses of different sizes.
- The bank makes an adequate level of community development loans.
- The bank has a significant level of qualified community development investments and grants.
- The bank provides an adequate level of community development services to its assessment area and delivery systems are reasonably accessible to essentially all portions of the assessment area.
- The geographic distribution of loans reflects poor penetration throughout the assessment area.

## **DESCRIPTION OF INSTITUTION**

Headquartered in Gladstone, NJ, Peapack is the sole bank subsidiary of Peapack-Gladstone Financial Corporation. The bank is a full-service commercial bank. As of December 31, 2008, it operated 23 branches in northern and central New Jersey, and reported total assets of \$1.4 billion, net loans and leases of \$1.0 billion, total deposits of \$1.2 billion, and total real estate loans of \$994 million. Of the total dollar amount of real estate loans, 58% (\$580 million) were secured by one- to four-family residential properties.

Peapack's business lines consist of consumer lending, retail deposit services, personal trust and investment services. Consumer products include purchase and refinance residential mortgages, home equity loans and lines, auto and personal loans, and reverse mortgages. Peapack also offers business services, such as commercial and small business lending, business checking, cash flow management, and accounts receivable collections and disbursements.

There are no financial or legal factors that would prevent the bank from fulfilling its responsibilities under CRA. The bank's previous CRA examination, which was dated December 3, 2007, resulted in a "Satisfactory" rating.

## **DESCRIPTION OF ASSESSMENT AREA**

Peapack has one assessment area, which is part of MSA 35620 (New York-Northern New Jersey-Long Island, NY-NJ-PA). The assessment area includes the following:

- MD 20764 (Edison, NJ), which includes all of Somerset County and a portion of Middlesex County in New Jersey; and
- MD 35084 (Newark-Union, NJ-PA), which includes portions of Essex, Hunterdon, Morris, and Union Counties in New Jersey.

Since the prior exam, Peapack's assessment area was expanded to include 50 additional census tracts in Middlesex County and 20 additional tracts in Union County. The assessment area now consists of a total of 249 census tracts, of which two are low-income tracts, 21 are moderate-income tracts, 225 are middle- and upper-income, and one tract with no income designation.

Peapack's assessment area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude low- and moderate-income ("LMI") geographies. Additional assessment area data can be found in Exhibit I. See Appendix B for a map of the assessment area.

## SCOPE OF EXAMINATION

Peapack's CRA performance was evaluated using the Federal Financial Institutions Examination Council's ("FFIEC") Interagency CRA Procedures for Large Retail Institutions. Performance was evaluated for the time period of January 1, 2007 through December 31, 2008. Examiners evaluated home purchase, refinance, home improvement, and small business loans. In addition, examiners reviewed community development loans and investments made during the examination period.

The real estate-related mortgage loans considered in the evaluation were reported under the Home Mortgage Disclosure Act ("HMDA") and the small business loans were reported under CRA. Examiners verified the integrity of the bank's HMDA and CRA reportable loan data.

### *Geographic Distribution*

For evaluation of the geographic distribution of loans, the bank's performance was rated based on the level of penetration in LMI geographies. Geographies were classified on the basis of the U.S. Census Bureau's 2000 income data. The proportion of HMDA-related loan originations in LMI geographies was compared to the proportion of owner-occupied units located in LMI geographies. For small business loans, the analysis compared the proportion of loan originations to the proportion of small businesses located in LMI areas as reported by Dun and Bradstreet.

### *Borrower Characteristics*

For the analysis of distribution by borrower characteristics, the proportion of originations of HMDA-related loans to LMI borrowers was compared to the proportion of LMI families in the assessment area. Income estimates from the U.S. Department of Housing and Urban Development were used to categorize borrower income. For small business loans, the proportion of loans to borrowers with gross annual revenues ("GAR") of \$1 million or less was compared with the proportion of such businesses in the assessment area as reported by Dun and Bradstreet. Examiners also analyzed the dollar amount of small business loans, focusing on the number of credit extensions under \$100,000. Loans in such amounts are viewed as especially responsive to the needs of smaller businesses.

### *Aggregate Comparison*

Peapack's 2007 and 2008 HMDA-related and small business loan performance was compared with the 2007 and 2008 performance of the aggregate of all lenders in the assessment area subject to HMDA and/or CRA small business loan reporting.

### *Deriving Overall Conclusions*

Before reaching a conclusion about the overall performance regarding geographic distribution and borrower characteristics in the assessment area, examiners weighted loan products by the total retail lending volume in order to determine the influence of performance on the overall

conclusion. Peer data was also used for the analysis of community development loans and qualified investments. Local peer banks were selected based on their amounts of assets, deposits and branches and their presence within the assessment area.

In order to gain an understanding of community credit needs, examiners interviewed community members involved in affordable housing and economic development activities during the examination. Community contacts included representatives of housing and community development organizations.

## **PERFORMANCE CONTEXT**

Demographic and economic information was obtained from publicly available sources, including the U.S. Department of Commerce's Bureau of the Census (2000), the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the New Jersey Department of Labor, and the New Jersey Realtors Association.

### *Demographic Characteristics*

According to the 2000 Census, the total population of the bank's assessment area is 1,192,305. The assessment area has 428,237 households, of which 74% are families. Less than one percent of the population resides in low-income geographies, while 8% reside in moderate-income geographies, and 92% reside in middle- and upper-income geographies. The median age of the population ranges from 36 years in Essex County to 42 years in Hunterdon County, compared to a state average of 39 years. Approximately 12% of the assessment area population is 65 years and older, which is comparable to the state average of 13% of the population at 65 years and older.

### *Income Characteristics*

According to 2000 Census data, the assessment area has 12% of families that are low-income, 14% of families that are moderate-income, and 3% of families living below the poverty level. The assessment area is a high-income area with most census tracts and families in the upper-income category. HUD estimated that the 2008 median family income for MD 20764 (Edison, NJ) was \$90,000, and \$84,300 for MD 35084 (Newark-Union, NJ-PA), compared to the State of New Jersey's median family income of \$81,800.

### *Housing Characteristics*

Housing costs are relatively expensive in the assessment area, although prices have recently declined due to the nationwide housing crisis. The National Association of Realtors reports the 2008 median sales price of a single family home in MD 20764 was \$365,200, compared to \$387,700 during the last examination. For MD 35084, the 2008 median sales price of a single

<b>EXHIBIT I</b>								
<b>Assessment Area Demographics</b>								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	2	0.8	1,124	0.4	343	30.5	37,134	11.7
Moderate-income	21	8.4	20,636	6.5	2,097	10.2	43,314	13.7
Middle-income	81	32.5	96,971	30.6	3,069	3.2	63,744	20.1
Upper-income	144	57.8	197,896	62.5	2,950	1.5	172,435	54.5
Unknown-income	1	0.4	0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>249</b>	<b>100.0</b>	<b>316,627</b>	<b>100.0</b>	<b>8,459</b>	<b>2.7</b>	<b>316,627</b>	<b>100.0</b>
	<b>Housing Units by Tract</b>	<b>Housing Types by Tract</b>						
		<b>Owner-occupied</b>			<b>Rental</b>		<b>Vacant</b>	
		#	%	%	#	%	#	%
Low-income	1,660	163	0.1	9.8	1,401	84.4	96	5.8
Moderate-income	31,064	12,791	4.0	41.2	16,675	53.7	1,598	5.1
Middle-income	147,468	87,668	27.4	59.4	55,733	37.8	4,067	2.8
Upper-income	259,581	219,423	68.6	84.5	34,250	13.2	5,908	2.3
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
<b>Total Assessment Area</b>	<b>439,773</b>	<b>320,045</b>	<b>100.0</b>	<b>72.8</b>	<b>108,059</b>	<b>24.6</b>	<b>11,669</b>	<b>2.7</b>
	<b>Total Businesses by Tract</b>	<b>Businesses by Tract &amp; Revenue Size</b>						
		<b>Less Than or = \$1 Million</b>		<b>Over \$1 Million</b>		<b>Revenue Not Reported</b>		
	#	%	#	%	#	%	#	%
Low-income	425	0.6	379	0.6	23	0.3	23	1.3
Moderate-income	4,715	6.7	3,968	6.4	569	7.9	178	10.1
Middle-income	22,302	31.6	19,361	31.4	2,316	32.1	625	35.3
Upper-income	43,237	61.2	37,997	61.6	4,297	59.6	943	53.3
Unknown-income	2	0.0	1	0.0	0	0.0	1	0.1
<b>Total Assessment Area</b>	<b>70,681</b>	<b>100.0</b>	<b>61,706</b>	<b>100.0</b>	<b>7,205</b>	<b>100.0</b>	<b>1,770</b>	<b>100.0</b>
	<b>Percentage of Total Businesses:</b>			<b>87.3</b>		<b>10.2</b>		<b>2.5</b>

family home was \$417,200, compared to \$433,000 during the last examination. Housing costs are very expensive for LMI families, with the median housing costs about nine times the median family income of a low-income borrower and about five times the income of a moderate-income borrower. Without some form of subsidy, home ownership is generally beyond the reach of LMI families in Peapack's assessment area. Community contacts indicated that the provision of affordable housing for the LMI population in the assessment area is a pressing need.

### Labor, Employment and Economic Characteristics

According to Dun and Bradstreet data, less than one percent of businesses in the assessment area are located in low-income areas, while 7% are in moderate-income areas, and 93% are in middle and upper income areas.

Between 2007 and 2008, unemployment within the assessment area as well as throughout the State of New Jersey increased. According to the New Jersey Department of Labor, the 2007 unemployment rates within the assessment area ranged from a low of 2.9% in Hunterdon County to a high of 5.3% in Essex County, compared to New Jersey State average of 4.2%. In 2008, the unemployment rates ranged from a low of 3.8% in Hunterdon County to a high of 6.6% in Essex County compared to New Jersey State average of 5.5%.

Professional and business services as well as trade, transportation, and utilities ranked as the largest industries in the assessment area. As of 2008, Peapack's assessment area contained 70,681 business establishments, of which 87% had GAR less than or equal to \$1 million.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS**

### **LENDING TEST**

Peapack's performance under the lending test is rated low satisfactory. The bank's lending activity and community development lending were adequate, while borrower distribution was good and geographic distribution was poor.

The Loan Distribution Table, on page BB8, lists the data used to evaluate the bank's lending test performance in its assessment area.

#### **Lending Activity:**

Peapack's lending activity demonstrated adequate responsiveness to the credit needs of the assessment area. During the evaluation period, the bank's total HMDA and small business loan volumes decreased by 4% between 2007 and 2008. This decrease is likely attributable to the economic downturn and housing crisis experienced nationwide during this time period. The aggregate also experienced decreases in loan volumes between 2007 and 2008.

In terms of market share, Peapack had 2% of the deposit market share in the combined Counties of Essex, Hunterdon, Middlesex, Morris, Somerset, and Union as of June 30, 2008, with \$1.2 billion in deposits. In terms of deposits, the bank was ranked 15th out of 76 among banks operating in these counties. Peapack was ranked 34th among the aggregate lenders for total HMDA originations and 21st among the aggregate for total small business originations in 2008. The bank's volume of HMDA-related originations as a percent of the aggregate's volume of HMDA-related originations was 0.78%, and its volume of small business originations as a percent of the aggregate's volume of small business originations was 0.31%.



**Assessment Area Concentration:** A majority of the bank’s overall lending (number and dollar volume) was originated within the assessment area. The bank extended 84% of its total loans to individuals residing and businesses operating in the assessment area. In particular, 83% of HMDA loans and 86% of small business loans were made in the bank’s assessment area. Lending within the assessment area increased since the prior examination. For example, home purchase originations within the assessment area increased significantly from 58% last examination to 75% this examination. See table below for additional details of Peapack’s 2007-2008 lending activity inside and outside of the assessment area.

<b>Peapack-Gladstone Bank Lending Inside and Outside Assessment Area January 1, 2007 through December 31, 2008</b>										
Loan Type	Inside Assessment Area				Outside Assessment Area				Total Loans	
	#	%	\$ (000s)	%	#	%	\$ (000s)	%	#	\$ (000s)
Home Purchase	160	75	62,912	74	52	25	22,606	26	212	85,518
Refinancing	186	88	53,462	89	25	12	6,415	11	211	59,877
Home Improvement	121	92	21,578	86	10	8	3,462	14	131	25,040
Multi-Family Housing	10	45	7,080	25	12	55	20,732	75	22	27,812
<b>Total HMDA Related</b>	<b>477</b>	<b>83</b>	<b>145,032</b>	<b>73</b>	<b>99</b>	<b>17</b>	<b>53,215</b>	<b>27</b>	<b>576</b>	<b>198,247</b>
<b>Small Business</b>	<b>458</b>	<b>86</b>	<b>91,742</b>	<b>79</b>	<b>74</b>	<b>14</b>	<b>24,737</b>	<b>21</b>	<b>532</b>	<b>116,479</b>
<b>TOTAL LOANS</b>	<b>935</b>	<b>84</b>	<b>236,774</b>	<b>75</b>	<b>173</b>	<b>16</b>	<b>77,952</b>	<b>25</b>	<b>1,108</b>	<b>314,726</b>

**Geographic Distribution:**

Peapack’s overall distribution of loans in geographies of different income levels was poor and needs to improve. This conclusion takes into account the number of LMI tracts and limited opportunities for loan originations within these tracts, as well as the bank’s size and competition in the assessment area.

According to the 2000 Census, the assessment area has two low-income census tracts and 21 moderate-income tracts. There are 320,045 owner-occupied housing units in the assessment

**EXHIBIT II**  
**Peapack-Gladstone Bank**  
**Loan Distribution Table (2008)**  
**In Assessment Area**

Income Categories	HMDA									
	By Tract Income					By Borrower Income				
	#	Bank %	Aggregate % \$(000s)	Bank %	Aggregate % \$(000s)	#	Bank %	Aggregate % \$(000s)	Bank %	Aggregate % \$(000s)
<b>Home Purchase</b>										
Low	0	0.0%	0.0%	0.2%	0.1%	8	8.2%	2.3%	2.9%	1.1%
Moderate	1	1.0%	0.9%	4.4%	2.9%	28	28.6%	14.7%	12.2%	7.1%
Middle	16	16.3%	10.4%	27.6%	21.1%	14	14.3%	10.5%	22.5%	17.6%
Upper	81	82.7%	88.7%	67.9%	75.8%	48	49.0%	72.5%	52.4%	63.5%
Unknown	0	0.0%	0.0%	0.0%	0.0%	0	0.0%	0.0%	10.0%	10.6%
<b>Total</b>	<b>98</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>98</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Refinance</b>										
Low	0	0.0%	0.0%	0.1%	0.1%	4	4.2%	1.1%	2.7%	1.1%
Moderate	2	2.1%	1.4%	5.5%	4.3%	21	21.9%	11.5%	12.3%	8.0%
Middle	10	10.4%	7.2%	29.4%	24.0%	9	9.4%	4.8%	22.7%	18.8%
Upper	84	87.5%	91.4%	64.9%	71.6%	54	56.3%	78.8%	46.9%	55.0%
Unknown	0	0.0%	0.0%	0.0%	0.0%	8	8.3%	3.8%	15.4%	17.1%
<b>Total</b>	<b>96</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Home Improvement</b>										
Low	0	0.0%	0.0%	0.1%	0.1%	2	4.4%	0.6%	5.4%	1.5%
Moderate	1	2.2%	1.8%	4.6%	2.9%	7	15.6%	3.1%	14.2%	12.3%
Middle	3	6.7%	1.2%	30.4%	19.3%	1	2.2%	2.7%	22.7%	15.8%
Upper	41	91.1%	97.0%	64.8%	77.7%	30	66.7%	90.5%	49.6%	60.0%
Unknown	0	0.0%	0.0%	0.0%	0.0%	5	11.1%	3.1%	8.1%	10.5%
<b>Total</b>	<b>45</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>45</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>Multi-Family</b>										
Low	0	0.0%	0.0%	4.7%	2.2%	0	0.0%	0.0%	0.0%	0.0%
Moderate	2	40.0%	14.2%	24.0%	37.0%	0	0.0%	0.0%	0.0%	0.0%
Middle	2	40.0%	74.2%	49.6%	45.1%	0	0.0%	0.0%	0.0%	0.0%
Upper	1	20.0%	11.6%	21.7%	15.7%	0	0.0%	0.0%	0.0%	0.0%
Unknown	0	0.0%	0.0%	0.0%	0.0%	5	100.0%	100.0%	100.0%	100.0%
<b>Total</b>	<b>5</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>5</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>HMDA Totals</b>										
Low	0	0.0%	0.0%	0.2%	0.2%	14	5.7%	1.5%	2.9%	1.1%
Moderate	6	2.5%	1.9%	5.1%	4.6%	56	23.0%	11.1%	12.3%	7.5%
Middle	31	12.7%	11.4%	28.8%	23.2%	24	9.8%	6.7%	22.6%	17.6%
Upper	207	84.8%	86.7%	65.9%	71.9%	132	54.1%	73.4%	49.1%	57.2%
Unknown	0	0.0%	0.0%	0.0%	0.0%	18	7.4%	7.3%	13.1%	16.6%
<b>Total</b>	<b>244</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>244</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>SMALL BUSINESS</b>										
<b>By Tract Income</b>										
	<b>#</b>	<b>Bank %</b>	<b>Aggregate % \$(000s)</b>	<b>Bank %</b>	<b>Aggregate % \$(000s)</b>					
Low	0	0.0%	0.0%	0.3%	0.4%					
Moderate	16	7.5%	5.7%	5.2%	6.4%					
Middle	23	10.8%	13.4%	27.8%	29.5%					
Upper	174	81.7%	80.9%	66.0%	63.5%					
Unknown	0	0.0%	0.0%	0.0%	0.0%					
Tract Unknown	0	0.0%	0.0%	0.8%	0.2%					
<b>Total</b>	<b>213</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>					
<b>By Revenue</b>										
\$1 Million or Less	105	49.3%	36.3%	23.4%	29.3%					
<b>By Loan Size</b>										
\$100,000 or less	118	55.4%	12.6%	96.3%	44.3%					
\$100,001-\$250,000	36	16.9%	16.0%	1.6%	11.6%					
\$250,001-\$1 Million	59	27.7%	71.5%	2.1%	44.1%					
<b>Total</b>	<b>213</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>					

Originations and Purchases

area, of which less than 1% (163) are located in low-income geographies and 4% (12,791) are in moderate-income geographies. In addition, there are 70,681 businesses operating within the assessment area, of which less than 1% (425) is located in low-income areas and 7% (4,715) are located in moderate-income areas.

An analysis of the lending distribution in each loan category follows.

#### *Home Purchase Loans*

Peapack's distribution of home purchase loans in LMI geographies was poor. In 2008, the bank did not originate any home purchase loans in low-income tracts and originated only one home purchase loan (1%) in moderate-income census tracts. Peapack did, however, have limited opportunities to lend in low-income tracts, as less than 1% of owner occupied units are located in these geographies. The bank's home purchase lending in low-income tracts was comparable to the performance of the aggregate, which also made less than 1% of its home purchase loans in low-income geographies.

Home purchase lending in moderate-income geographies compared less favorably to both the demographics and the aggregate. Demographic data reported that 4% of owner-occupied housing units are located in moderate-income geographies. Peapack's performance in moderate-income geographies was below the aggregate, which made 4% of its home purchase loans in moderate-income geographies. The bank's performance in 2007, when compared to the level of owner-occupied housing units and to the 2007 aggregate performance, was marginally better than its 2008 performance.

#### *Refinance Loans*

Peapack's distribution of refinance loans in LMI geographies was also poor. In 2008, the bank did not originate any refinance loans in low-income tracts, but originated two refinance loans (2%) in moderate-income census tracts. Opportunities to make refinance loans in low-income tracts were limited as less than 1% of owner occupied units are located in low-income geographies. The bank's refinance lending in low-income tracts was comparable to the performance of the aggregate, which also made less than 1% of its refinance loans in low-income geographies.

Refinance lending in moderate-income geographies compared less favorably to both the demographics and to the aggregate's performance. A total of 4% of owner-occupied housing units are located in moderate-income geographies. Peapack's 2008 refinance lending performance in moderate-income geographies was below the aggregate, which made 6% of its refinance loans in moderate-income geographies. The bank's performance in 2007, when compared to the level of owner-occupied housing units and to the 2007 aggregate performance, was comparable to its 2008 performance.

### *Home Improvement Loans*

Peapack's distribution of home improvement loans in LMI geographies was poor. In 2008, the bank did not originate any home improvement loans in low-income tracts, and originated only one home improvement loan (2%) in a moderate-income tract. Peapack had limited opportunities to make home improvement loans in low-income tracts, as less than 1% of owner occupied units are located in low-income geographies. The bank's home improvement lending in low-income tracts was comparable to the performance of the aggregate, which also made less than 1% of its home improvement loans in low-income geographies.

Home improvement lending in moderate-income geographies compared less favorably to both the demographics and the aggregate's performance. A total of 4% of owner-occupied housing units are located in moderate-income geographies. Peapack's performance in making home improvement loans in moderate-income tracts was below the aggregate, which made 5% of its home improvement loans in moderate-income geographies. The bank's performance in 2007, when compared to the level of owner-occupied housing units and to the 2007 aggregate performance, was comparable to its 2008 performance.

### *Small Business Loans*

Peapack's distribution of small business loans in LMI geographies was good. In 2008, the bank did not originate any small business loans in low-income tracts, but originated 16 small business loans (8%) in moderate-income census tracts. Peapack had limited opportunities to lend in low-income tracts, as less than 1% of small businesses in the assessment area are located in low-income geographies. The bank's small business lending in low-income geographies was comparable to the performance of the aggregate, which also made less than 1% of its small business loans in low-income geographies.

The bank's small business lending in moderate-income geographies compared favorably to both the demographics and the aggregate's performance. A total of 6% of small businesses in the assessment area are located in moderate-income geographies. Peapack's small business lending in moderate-income geographies exceeded that of the aggregate, which made 5% of its small business loans in moderate-income geographies. The bank's performance in 2007, when compared to the proportion of small businesses in the assessment area located in LMI geographies and to the 2007 aggregate performance, was less favorable than its performance in 2008.

### **Distribution of Borrower Income and Revenue Size of the Business:**

Peapack's overall distribution of loans among borrowers of different income levels (including LMI individuals) and businesses of different sizes reflects good distribution. In making this conclusion, consideration was given to the high cost of housing in the assessment area.

According to the 2000 Census, the assessment area has 316,627 families, of which 37,134 (12%) are low-income families and 43,314 (14%) are moderate-income families. In addition, the assessment area has 70,681 business establishments, of which 61,706 (87%) are small businesses with GAR of \$1 million or less.

#### *Home Purchase Loans*

Peapack's distribution of home purchase loans to LMI borrowers was excellent. In 2008, the bank originated 8 home purchase loans (8%) to low-income borrowers, compared to 12% of low-income families residing in the assessment area. The bank's home purchase lending to low-income borrowers exceeded the aggregate, which originated 3% of its home purchase loans to low-income borrowers.

The bank made 28 home purchase loans (29%) to moderate-income borrowers in 2008, compared to 14% of moderate-income families residing in the area. Home purchase lending to moderate-income borrowers exceeded the aggregate, which originated 12% of its home purchase loans to moderate-income borrowers. The bank's performance in 2007 was comparable to its performance in 2008 when compared to the demographics and to the 2007 aggregate performance.

#### *Refinance Loans*

Peapack's distribution of refinance loans to LMI borrowers was good. In 2008, the bank originated 4 refinance loans (4%) to low-income borrowers, compared to 12% of low-income families residing in the assessment area. The bank's refinance lending to low-income borrowers exceeded the aggregate, which originated 3% of its refinance loans to low-income borrowers.

The bank made 21 refinance loans (22%) to moderate-income borrowers in 2008, compared to 14% of moderate-income families residing in the area. Refinance lending to moderate-income borrowers significantly exceeded the aggregate, which originated 12% of its refinance loans to moderate-income borrowers in 2008. The bank's performance in 2007 was less favorable than its 2008 performance when compared to the demographics and to the 2007 aggregate's performance.

#### *Home Improvement Loans*

Peapack's distribution of home improvement loans to LMI borrowers was also good. In 2008, the bank originated 2 home improvement loans (4%) to low-income borrowers, compared to 12% of low-income families residing in the assessment area. The bank's home improvement lending to low-income borrowers was slightly below the aggregate, which originated 5% of its home improvement loans to low-income borrowers.

The bank made 7 home improvement loans (16%) to moderate-income borrowers in 2008, compared to 14% of moderate-income families residing in the area. Home improvement lending

to moderate-income borrowers was similar to the aggregate, which originated 14% of its home improvement loans to moderate-income borrowers. The bank's performance in 2007, when evaluated against the demographics and the aggregate's performance, was comparable to its 2008 performance.

#### *Lending to Businesses of Different Sizes*

Peapack's distribution of loans to businesses of different sizes was adequate. In 2008, the bank made 105 loans (49%) to businesses with GAR of \$1 million or less, compared to 87% of such businesses in the assessment area. The bank's small business lending performance exceeded the aggregate, which made 23% of its loans to businesses with GAR of \$1 million or less. Of the bank's total small business loans originated in 2008, 55% were in amounts of \$100,000 or less, compared to the aggregate, which originated 96% of its small business loans in amounts of \$100,000 or less. The bank's performance in 2007, when compared to the demographics and to the 2007 aggregate's performance, was comparable to its 2008 performance.

#### **Community Development Lending:**

Peapack made an adequate level of community development loans. During the evaluation period, the bank made four community development loans totaling \$6.2 million, an increase of 24% compared to the last examination. At the last examination, Peapack had \$5 million in community development loans. Loans dedicated to affordable housing constituted the majority of the community development lending, making these loans particularly responsive to the assessment area's needs. Community contacts identified affordable housing as a primary community need for LMI individuals. In terms of dollar volume, the bank's volume of community development loans exceeded the volume of similarly-situated peer institutions in the assessment area.

Community development loans include:

- A commercial mortgage to finance a 172-unit affordable rental housing development in Somerset County.
- A term loan to finance 34 affordable rental units in a housing development in Somerset County.
- A term loan to finance a 20-unit affordable rental housing development in Somerset County.
- A term loan to an organization located in Somerset County that provides community development services for LMI adolescent children that have been neglected, abused or abandoned. Funds will be used to construct affordable housing units for abandoned children.

## INVESTMENT TEST

Peapack's performance under the investment test is rated high satisfactory. The bank made a significant level of qualified community development investments and grants. Peapack's community development investment activity demonstrated good responsiveness for an institution with limited opportunities for qualified community development investment. The assessment area is a relatively high income area, which makes it challenging for the bank to find qualified investment opportunities within the assessment area. During the examination period, the bank made \$7 million in qualified investments, an increase of 43% since last examination. At the last CRA examination, the bank made \$4.9 million in qualified investments. A total of \$3 million of Peapack's qualified investments were new investments made since the prior examination.

Peapack made occasional use of complex investments to support community development initiatives. In terms of dollar volume, 98% of the bank's total qualified investments consisted of mortgage-backed securities, collateralized by loans targeted to LMI individuals. Community development investments were primarily dedicated to affordable housing, which is a prominent need in the assessment area as identified by local community contacts. Peapack's volume of qualified investments (in terms of dollars) was generally comparable with the dollar volume of similarly-situated peer institutions in the assessment area.

## SERVICE TEST

Peapack's performance under the service test is rated low satisfactory. The bank provides an adequate level of retail and community development services.

**Retail Services:** Peapack's delivery systems are reasonably accessible to essentially all geographies and individuals of various income levels in its assessment area. While all of the bank's branches are located in middle- or upper-income census tracts, three branches are located in close proximity to moderate-income census tracts, providing some access to those residing in LMI tracts.

Peapack's record of opening and closing branches generally did not adversely affect the accessibility of the bank's delivery systems to LMI geographies and LMI individuals. All branch offices provide similar products and services, and branch hours do not vary in a way that inconveniences portions of the assessment area. At 21 of the 23 branches, extended and/or Saturday hours are available.

Alternative delivery systems did not materially impact the accessibility of bank services for LMI individuals or geographies. Peapack has ATMs at 22 of its 23 branch locations as well as two off-site ATMs located in Hunterdon County. Since the prior examination, one ATM was added in Morris County. Peapack offers Internet, telephone, and bank-by-mail services. However, no service is specifically targeted to LMI customers.

**Community Development Services:** The bank provides an adequate level of community development services to its assessment area. Peapack participated in 18 residential mortgage and/or small business seminars and conferences targeted to first time homebuyers, compared to its participation in 12 such events at the last examination. Bank representatives participated on the boards or as committee members of 8 community development organizations on an on-going basis, compared with 14 identified at the last examination. These community development organizations include:

- An organization that serves LMI women, primary in Hunterdon and Somerset Counties, who are recovering from drug or alcohol addiction.
- An organization that provides shelter, homeless prevention services, financial assistance, addiction counseling, and after-school programs for LMI individuals in Essex County.
- A consortium of public, private, and community leaders who work in partnership to promote development for Somerset County. This organization provides services related to economic and community development, small business, and workforce needs of the community.
- An organization that provides meals, shelter, clothing and other short-term services to LMI individuals in Hunterdon County. This organization also offers programs that complement or augment government healthcare assistance, including prevention and awareness programs for illnesses, including drug/alcohol abuse. It also provides parenting classes, family counseling and domestic violence prevention programs.

#### **FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW**

The bank is in compliance with the substantial provisions of the antidiscrimination laws and regulations. No credit practices were identified as being inconsistent with helping to meet the credit needs of the assessment area.



## CRA APPENDIX A

### GLOSSARY

**Aggregate lending:** The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

**Community development:** Affordable housing (including multifamily rental 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

**Geography:** A census tract 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 income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

**Household:** A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

**Low-income:** Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, in the case of a geography.

**Metropolitan Statistical Area (“MSA”):** A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

**Metropolitan Division:** A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

**Middle-income:** Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

**Moderate-income:** Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

**Small loan(s) to business(es):** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Upper-income:** Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

# Peapack - Gladstone Bank

## Assessment Area

January 1, 2007 - December 31, 2008

