

PUBLIC DISCLOSURE

JULY 7, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

INTERCHANGE STATE BANK

02-34-3083

PARK 80 PLAZA WEST

SADDLE BROOK, NEW JERSEY

FEDERAL RESERVE BANK OF NEW YORK

33 LIBERTY STREET

NEW YORK, NEW YORK 10045-0001

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 Community Reinvestment Act (CRA) performance of **Interchange State Bank** prepared by **the Federal Reserve Bank of New York**, the institution's supervisory agency, as of **July 7, 1997**. 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 CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated **SATISFACTORY**.

Interchange's level of compliance with the CRA is assessed as **Satisfactory**, and is based on an evaluation of the performance criteria specified under the CRA with respect to the lending, investment and service tests. The bank's overall rating reflects a **Low satisfactory** rating on both the lending and investment tests and a **High satisfactory** rating on the service test. Performance under the lending test is adequate as evidenced by: (1) lending activity that reflects good responsiveness to assessment area credit needs; (2) adequate geographic distribution of loans; (3) adequate distribution of lending among borrowers of different income levels and business customers of different sizes; (4) satisfactory use of innovative or flexible lending practices; and (5) a low level of community development lending that needs to improve.

Performance under the investment test is adequate; however, the bank's investment is neither innovative or complex. Under the service test, Interchange's delivery systems is considered reasonably accessible to all segments of the assessment area and the bank provided a relatively high level of community development services.

The following table indicates the performance level of Interchange State Bank with respect to the lending, investment, and service tests.

| PERFORMANCE LEVELS | <u>INTERCHANGE STATE BANK</u> | | |
|---------------------------|--------------------------------------|------------------------|---------------------|
| | 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 when arriving at an overall rating.

DESCRIPTION OF INSTITUTION:

Interchange State Bank (Interchange), chartered in 1969, is a full-service, retail-oriented bank headquartered in Saddle Brook, New Jersey. The bank is the only subsidiary of Interchange Financial Services Corporation, a bank holding company. In addition to its main office, Interchange operates 11 full-service branches and two stand-alone automatic teller machines (ATMs), in the western portion of Bergen County, New Jersey. The area is highly competitive, with branches of numerous local, regional and multinational banks, operating throughout the county.

As of March 31, 1997, the bank had total assets of \$509 million, total deposits of \$438 million, and total loans of \$356 million. Through its branch system, Interchange offers a wide variety of consumer and commercial loan products; however, the primary business focus is on loans secured by real estate. Loans secured by 1-4 residential residences comprised 54 percent (\$191 million) of the total loan portfolio, while loans secured by commercial real estate represent 32 percent (\$114 million) of total loans. The remainder of the loan portfolio consists of commercial loans, consumer loans and other loans and leases representing 11 percent, 2 percent and 1 percent, respectively, of total loans.

Based on the bank's size and financial condition, there are no financial impediments preventing the bank from helping to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA:

The following demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census, 1990, the United States Department of Labor and the Department of Housing and Urban Development.

At the examination date, Interchange's assessment area consisted of Bergen County, New Jersey, a portion of Metropolitan Statistical Area (MSA) 0875 (Bergen-Passaic, NJ). This is a change since the last examination, when the bank's assessment area consisted of all of MSA 0875. Effective January 1, 1997, the assessment area changed as a result of the sale, at year end 1996, of the deposits of the bank's only branch in Passaic County. Due to the change in the assessment area and the limited presence Interchange maintained in Passaic County, primary emphasis in arriving at the bank's CRA rating was placed on the bank's performance in Bergen County, the only portion of MSA 0875 the bank now includes in its assessment area. The bank's assessment area is in compliance with the requirements of Section 228.41 of Regulation BB. For Bergen County, CRA activity was reviewed from the last examination to March 31, 1997, while the review of activities in Passaic County included the period from the last examination through December 31, 1996.

MSA 0875 (BERGEN-PASSAIC, NJ)

This MSA, which combines Bergen and Passaic Counties, has a population of approximately 1.3 million; about 17 percent of the population of the State of New Jersey. Bergen County accounts for approximately 65 percent of the MSA's population. Whereas the population in Bergen County is evenly distributed with few large cities, the population of the Passaic County portion of the MSA is especially concentrated in large cities as Clifton, Paterson and Passaic City. Overall in the MSA, people 65 and older comprise 14 percent of the MSA's population, compared to a statewide level of 13 percent. In Bergen County, 15 percent of the population is 65 or older, while in Passaic County, only 13 percent of the population is 65 or older.

The median family income in the overall MSA is \$52,659. Higher income levels are generally found in Bergen

County, while in Passaic County the median family income is about 15 percent less than the MSA level. According to the 1990 census, the percentage and number of families in the MSA with low-, moderate-, middle-, and upper-income consist of 18.6 percent or 63,750 low-income families, 18.9 percent or 64,956 moderate-income families, 23.6 percent or 80,941 middle-income families, and 38.9 percent or 133,527 upper-income families. The 1997 HUD adjusted median family income for MSA 0875 is \$65,300.

Of the 264 census tracts used for analysis, 68 or 26 percent are low- and moderate-income tracts. About 60 percent of the low- and moderate-income tracts are found in the Passaic County portion of the MSA, particularly in the cities of Passaic and Paterson. Only 4.4 percent or 15,044 people live below the 1990 poverty level of \$12,674 for a family of four in MSA 0875, compared to a state figure of 5.6 percent.

Of the 487,329 housing units in the MSA, 296,445 or 61 percent, are owner-occupied, while 167,704 or 34 percent are rental units. In Passaic County, the level of owner-occupancy is only 53 percent. According to the 1990 census, the median value of housing for the MSA is \$212,905, and the median rent is \$646.

The services industry has grown in the MSA since 1990. The service sector now accounts for 31 percent of jobs, while the retail trade accounts for 16 percent, manufacturing 16 percent and wholesale 10 percent. Most manufacturing jobs are in the Passaic County portion of the MSA. Although service sector jobs are increasing in Passaic County, the gain is offset by the continuing decline in manufacturing jobs. The unemployment rate for the MSA was 6.0 percent in July 1997.

Exhibit A on page 18 of this report provides a demographic summary of MSA 0875.

BERGEN COUNTY

Bergen County is an affluent and densely populated area. The total population of 825,380 represents 65 percent of the total population of MSA 0875 (Bergen-Passaic, NJ), and 11 percent of the state's total population of 7.7 million. The population is evenly distributed across the county with few large cities, with the exception of Hackensack and Englewood. Fifteen percent of the population, or 126,229 persons, are over the age of 65 compared to a state level of 13 percent.

Bergen County is one of the most affluent counties in New Jersey. According to the 1990 census, median family income is \$57,760, compared to the MSA median of \$52,659, and the state median of \$47,589. The percentage and number of families in the MSA with low-, moderate-, middle-, and upper-income consist of 14.7 percent or 33,467 low-income families, 17.1 percent or 38,724 moderate-income families, 23.7 percent or 53,691 middle-income families, and 44.6 percent or 101,137 upper-income families.

Only five of the 177 census tracts used for analysis are low-income. These five tracts are very small and have a combined population of 95 and only 10 business establishments. As a result of such nominal statistics, activity in the low-income census tracts of Bergen County was not considered material to the conclusions found at this examination.

The majority of moderate-income census tracts are located in the Cities of Lodi and Garfield, older communities which have experienced economic decline because of the recent closing of local factories. Community contacts made as part of this examination noted that there is a need for economic revitalization in these cities. Scattered moderate-income census tracts are found in Fairview, Hackensack, Palisades Park, East Rutherford and Wallington.

Of the county's 324,817 housing units, 65 percent or 209,807, are owner-occupied, while 99,703 or 31 percent are rentals. Housing costs are high in Bergen County. The median housing value in 1990 was \$226 thousand, about 40 percent higher than the state median of \$161 thousand. At the same time, the gross median rent in Bergen County was \$689, considerably higher than the State median rent of \$592. Community contacts noted that because of the limited amount of undeveloped land available, opportunities for new affordable housing development are costly and somewhat limited.

Employment in Bergen County is found predominately in the services and retail/wholesale sector which account for 30 percent and 28 percent of jobs, respectively. Manufacturing remains a significant factor at 17 percent of the labor force. The county's unemployment rate has been declining. In April 1997, the unemployment rate in Bergen County was 4.2 percent compared to a rate of 5.2 percent for the State of New Jersey. There are approximately 38 thousand business establishments in Bergen County, 52 percent of which are located in middle-income census tracts.

Exhibit B on page 19 of this report provides a demographic summary of Bergen County.

MAP INSERT HERE

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS:**LENDING TEST**

Interchange's flow satisfactory rating on the lending test is based on the following performance criteria: 1) lending levels that reflect good responsiveness to credit needs and a substantial majority of loans reviewed originated in the bank's assessment area; 2) a geographic distribution that reflects adequate loan penetration throughout the assessment area; 3) an adequate distribution of loans among retail customers and businesses of different sizes; 4) use of innovative and flexible loan products; and 5) a low level of community development lending activity that needs to improve.

Lending Activity

Interchange's lending levels reflect a good response to assessment area credit needs. The overall volume of loans originated during the examination period was reasonable. A substantial majority of loans originated during the examination period were within the bank's assessment area. Overall, 88 percent of loans as well as 88 percent of the dollar volume were within the assessment area.

The examination included originations for home mortgage, refinance and home improvement reported under Regulation C- Home Mortgage Disclosure Act (HMDA), small business loan originations reported under CRA and consumer loan originations compiled by the bank. The analysis of HMDA loans included approvals from September 1, 1995 through March 31, 1997 and the analysis of consumer and small business loan activity included originations from January 1, 1996 through March 31, 1997.

Interchange offers a full range of credit products including residential mortgages, home improvement loans, home equity loans, credit cards, and small business loans. As Table 1 below shows, the bank's primary focus during the examination period was HMDA lending, particularly refinance and home improvement loans. Of the 1,755 loans originated during the examination period, 63 percent or 1,104 were HMDA loans. With approximately 60 percent of housing units in the assessment area owner-occupied, the focus on residential lending is considered reasonable. Refinance and home improvement loans constitute approximately 95 percent of the HMDA loans approved. Home purchase loans represented only 5 percent of HMDA activity. While credit needs in the assessment area do include home purchase loans, the bank does not actively promote such products. Interchange does not market its mortgage products through brokers, and product variety, rates, and terms are generally not competitive with those offered by the many larger banks and non-bank mortgage lenders doing business in the area.

Consumer lending also consisted primarily of residential loan products. Of the 434 consumer loans originated during the examination period 60 percent or 260 loans were home equity loans. Included in home equity originations are 31 reverse mortgages totaling \$5 million. This unique home equity type product is directed to homeowners at least 62 years of age. For more details on the reverse mortgage product, see the discussion on Innovative and Flexible Lending Practices on page 13.

TABLE 1
Total Loans
September 1, 1995 - March 31, 1997

| Loan Type | Number | % of Total | \$ (000s) | % of Total |
|------------------------------|---------------|-------------------|------------------|-------------------|
| HMDA Refinance | 665 | 60% | \$46,008 | 72% |
| HMDA Home Improvement | 379 | 34% | \$11,064 | 17% |
| HMDA Home Purchase | 60 | 6% | \$ 7,561 | 11% |
| TOTAL HMDA | 1,104 | 100% | \$63,633 | 100% |
| | | | | |
| TOTAL HMDA | 1,104 | 63% | \$46,008 | 61% |
| TOTAL CONSUMER* | 434 | 25% | \$14,963 | 14% |
| TOTAL SMALL BUSINESS* | 217 | 12% | \$26,649 | 25% |
| TOTAL LOANS | 1,755 | 100% | \$106,245 | 100% |

*Originations are from January 1, 1996 - March 31, 1997

Table 2, below, shows the level of lending inside and outside the assessment area by loan type.

TABLE 2
LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA
(Dollar Amounts in Thousands)

| | HMDA | Small Business | Consumer | Total |
|-------------------------------|-----------------|-----------------|-----------------|-------------------------------|
| | 9/1/95-3/31/97 | 1/1/96-3/31/97 | 1/1/96-3/31/97 | |
| In Assessment Area | | | | |
| Number/Percent of Total | 954 86% | 189 87% | 379 87% | 1,552 88% |
| \$ Amount/Percent of Total | \$57,214 88% | \$22,716 85% | \$13,059 87% | \$92,989 88% |
| Out of Assessment Area | | | | |
| | | | | |

| | | | | |
|----------------------------|----------------|----------------|----------------|-------------------------------|
| Number/Percent of Total | 150 14% | 28 13% | 55 13% | 233 12% |
| \$ Amount/Percent of Total | \$7,419 11% | \$3,933 15% | \$1,904 13% | \$13,256 12% |
| Totals | | | | |
| Number of Loans | 1,104 | 217 | 434 | 1,755 |
| \$ Amount of Loans | \$64,633 | \$26,649 | \$14,963 | \$106,245 |

Geographic Distribution of Lending

The geographic distribution of Interchange's lending activity was determined through an analysis of the aforementioned loan data. Interchange's efforts to help meet the credit needs in its assessment area, including low- and moderate-income areas, is adequate. Overall, the analysis demonstrates reasonable HMDA and consumer loan activity among the low-, moderate-, middle- and upper-income geographies in the bank's assessment area; however, some weakness was noted in some communities in the assessment and involving consumer lending. The small business lending analysis demonstrates strong performance, with demand-adjusted activity in low- and moderate-income geographies exceeding that in middle- and upper-income geographies.

Overall, loan penetration was consistent with the distribution of the bank's branches and management's practice of sourcing loans only through the branch network. Most loans were clustered around branch locations. Of the bank's 12 branches, 10 predominately serve middle- and upper-income census tracts. Loan volume in eastern Bergen County, where Interchange has no branch presence, is generally low. In Passaic County, loan volume was very low outside the Clifton area, where the only Passaic County branch was located.

As indicated in the description of the assessment area, the performance in Bergen County was primarily relied upon in reaching overall conclusions. Prior to the sale of the only Passaic County branch at year-end 1996, 11 of 12 Interchange branches were located in Bergen County. Deposits at the Passaic County branch (\$14 million) represented only about 3 percent of the bank's total deposits. As of January 1, 1997, Interchange no longer had a branch presence in Passaic County. During the examination period, 77 percent (1,345 loans) of loans originated were made in Bergen County.

Exhibits C through G, at the end of this report, reflect the bank's HMDA, small business and consumer lending activity in the assessment area.

Refinance and Home Purchase Loans

On a demand-adjusted basis, mortgage activity, primarily refinance, was reasonable. Overall, the demand-adjusted level of refinance and home purchase lending within the assessment area was 2.3 times greater in middle- and upper-income census tracts than in low- and moderate-income census tracts. However, in Bergen County, the demand-adjusted level of lending was at a much more satisfactory level, with lending in non low- and moderate-income census tracts at a more moderate 1.6 times that in low- and moderate-income census tracts. For the overall assessment area, this demand-adjusted level of lending is an improvement since the last examination. At the prior examination, the demand-adjusted level of lending was 3.5 times greater in middle- and upper-income tracts than in low- and moderate-income tracts. The improving trend appears to be primarily due to the increase in lending in low- and moderate-income areas and the change in the assessment area.

Home Improvement Loans

An analysis of home improvement lending shows a reasonable geographic distribution of loans in the assessment area. Within the overall assessment area, the demand-adjusted level of home improvement lending was only 1.2 times greater in middle- and upper-income census tracts than in low- and moderate-income census tracts. In Bergen County, however, the analysis revealed a demand-adjusted level of lending 1.4 times greater in middle- and upper-income census tracts than in low- and moderate-income census tracts. This performance is generally consistent with that found at the last examination where the demand-adjusted level of lending was 1.4 times greater in middle- and upper-income tracts than in low- and moderate-income tracts.

Small Business Loans

The bank's performance with regard to small business loan activity, on a demand-adjusted basis, was strong. Overall, the demand-adjusted level of small business lending in the bank's assessment area was generally equivalent in low- and moderate-income census tracts and middle- and upper-income census tracts. In Bergen County the analysis showed a demand-adjusted level of lending 1.4 times greater in low- and moderate-income census tracts than in middle- and upper-income census tracts. This performance is an improvement from the prior examination where lending was 1.3 times greater in middle- and upper-income tracts than in low- and moderate- income census tracts.

The bank's performance is the same for loans made to small businesses with revenues of \$1 million or less. Activity in the overall MSA was generally equivalent in low- and moderate-income census tracts and middle- and upper-income census tracts. In Bergen County, lending was 1.4 times greater in low- and moderate-income census tracts, on a demand-adjusted basis.

In addition, included in the bank's small business loans are two loans totaling \$594 thousand where the bank participated with the New Jersey Economic Development Authority (NJEDA). Both loans have an economic development purpose and will help to revitalize and stabilize moderate-income geographies in the City of Paterson.

Consumer Loans

An analysis of consumer loans reveals a reasonable geographic distribution of loans within the bank's assessment area; however, some areas of weakness were noted. In the overall assessment area, 7 percent of consumer loans were originated in low- and moderate-income census tracts, while 20 percent of families in the assessment area live in low- and moderate-income census tracts. In Bergen County only, 6 percent of consumer loans were originated in low- and moderate-income census tracts, while 11 percent of families live in low- and moderate-income census tracts. This distribution is reasonable given the composition of the consumer loan portfolio and the demographics of the assessment area. Of the 434 consumer loans originated by the bank during the examination period, 260 (60 percent) were home equity loans. In the low- and moderate-income census tracts of the overall assessment area, 62 percent of housing units are renter-occupied, and in Bergen County 55 percent of housing units are renter-occupied.

Consumer lending was low in the cities of Garfield and Lodi. These cities contain the majority of moderate-income geographies in Bergen County; however, they do not offer the home equity lending opportunities which are the focus of the bank's consumer lending efforts since owner-occupied units in these cities approximates only

40 percent of housing units. Also, the low level of all types of consumer lending in these areas may be due to the impact of local economic issues resulting from the closing of numerous manufacturing facilities in recent years.

Borrower Characteristics

Interchange's overall record of lending to borrowers of different income levels, including low- and moderate-income individuals, and businesses of different sizes is at an adequate level, as reflected in Exhibits H through K, at the end of this report. An analysis of HMDA loans, which represents a substantial 63 percent of all lending activity reviewed and 72 percent of all non small business related loans during the examination period, shows that the volume of loans to low- and moderate-income borrowers is adequate given the demographics of the assessment area.

Small business loans showed a good dispersion of loans to small businesses, with the majority of loans being \$100,000 or less. Consumer loan analysis revealed excellent performance, with a good number of loans to low- and moderate-income borrowers.

Refinance and Home Purchase Loans

The bank's refinance and home purchase lending activity reflects an adequate distribution of loans among individuals of different income levels. In the overall assessment area, 20 percent of loan approvals were to low-and moderate-income borrowers, while 38 percent of families are considered low-and moderate-income. In Bergen County, 20 percent of loan approvals were to low-and moderate-income borrowers, while 32 percent of families are considered low-and moderate-income. Although a disparity exists between loan volume and the level of family distribution by income levels, it is considered reasonable given the very high cost of housing in relation to borrower income levels. According to the 1990 Census, the median home cost in MSA 0875 (Bergen-Passaic, NJ) is \$212,905, while the median family income is \$52,659. Low-income families earn 50 percent or less of the median income (\$26,329) and moderate-income families earn between 50 percent and 80 percent (\$42,127) of the median family income. In Bergen County, the disparity is more pronounced. The median housing cost is \$226,000 and the median family income is \$57,760. Fifty percent of the median family income is \$28,880 and 80 percent is \$46,208.

Home Improvement Loans

Home improvement loans also show an adequate distribution of loans to borrowers of different income levels, with overall performance at a level similar to the that achieved for refinance activity. For the overall assessment area, 21 percent of loan approvals were to low- and moderate-income borrowers and in Bergen County, 19 percent of loan approvals were to low- and moderate-income borrowers.

Small Business Loans

An analysis of small business lending reveals a very good record of lending to small businesses. Of all small business loans reported, 74 percent were for loan amounts of \$100,000 or less. The average loan size for all small business loans was \$120 thousand. Of small business loans reported, 55 percent were to businesses with gross annual revenues of \$1 million or less. Of the businesses in the assessment area, 81 percent have gross revenues of \$1 million or less. The average loan size for loans of \$100,000 or less to businesses with annual revenues of \$1 million or less was \$31,780. It should be noted, however, that many of the loans for \$100 thousand or less to businesses with sales greater than \$1 million are made to local middle market companies which provide jobs and create economic opportunities within the bank's assessment area.

Information released by the Federal Financial Institution Examination Council (FFIEC) on small business loan data for 1996 reported by large commercial banks and thrift association subject to CRA indicates that Interchange's level

of lending to businesses with annual revenues of \$1 million or less is consistent with other large commercial bank and thrift association reporters. Of small business loans reported by large commercial banks and thrift associations, 56 percent were made to firms with revenues of \$1 million or less.

Consumer Loans

Interchange's consumer lending reflects an excellent distribution of loans among individuals of different income levels. In the overall assessment area, loans to low-and moderate-income borrowers represented 45 percent of total originations. Loans to low-income borrowers alone accounted for 25 percent of originations. In Bergen County, loans to low-and moderate-income borrowers accounted for 44 percent of total originations. Loans to low-income borrowers accounted for 25 percent of originations, while 15 percent of families in Bergen are low-income. The bank's excellent performance appears to be mainly the result of the successful marketing of its reverse mortgage product, which is included in the consumer loan category. This product is offered to specifically meet the credit needs of borrowers age 62 and older, many of whom are on fixed incomes which meet the definition of low- or moderate-income.

Community Development Lending

Interchange's community development lending performance needs to improve. Community development loans totaled only \$487 thousand and were outstanding at the last examination. The total represents three loans to two community service entities, which will provide a group home and a day care center. The bank did, however, originate two small business loans during the examination period, in participation with the New Jersey Economic Development Authority (NJEDA) that meet the definition of community development lending. These loans were included under the Borrower Characteristics section of the Lending Test and also given favorable consideration under the Innovative or Flexible Lending Practices sections of the Lending Test, which follows.

Management is aware of its community development loan performance, and has taken steps to improve future performance through increased outreach efforts.

Innovative or Flexible Lending Practices

Considering the size and resources of the bank, lending products offered by Interchange show a satisfactory use of innovative and flexible lending practices to serve the bank's assessment area. Interchange is the only bank in New Jersey that offers Fannie Mae's reverse mortgage product, "The Home Equity Conversion Mortgage". The loan allows senior citizens to utilize equity in their homes as a source of income to meet daily living expenses and/or the assessment area's high property taxes. There are no income restrictions or credit history considerations in applying for the reverse mortgage; the only requirements are that the applicant be age 62 or older and live in the home. Community organizations noted the need to assist senior citizens with meeting tax obligations. Bergen County has approximately 13 thousand extremely low- income homeowners, of which 71 percent are elderly. During the exam period, 31 reverse mortgages were originated. In total, the bank has originated 227 such loans.

Interchange originates Small Business Administration (SBA) loans and business loans in conjunction with the NJEDA. Interchange is a certified SBA lender and offers all SBA programs including Low-Doc, with the exception of the business credit line, which is part of the bank's own product offerings. The NJEDA seeks to provide financing to businesses in specified communities of New Jersey which have been determined to be in need of economic revitalization, by providing loan guarantees. These guarantees allow businesses that might not otherwise qualify for financing an opportunity to obtain a bank loan.

INVESTMENT TEST

Interchange's low satisfactory rating on the investment test is based on an adequate level of qualified investments. This investment, however, is neither innovative nor complex.

The bank's qualified investments are primarily limited to one investment in the bank's municipal portfolio. It is a \$990,000 Bond Anticipation Note (BAN), which represents approximately 15 percent of the bank's total investment portfolio of \$6.6 million, purchased in November 1995 from the City of Garfield. Funds were used to improve the city's infrastructure, a need expressed during a community contact meeting conducted during the examination. The City of Garfield is comprised entirely of moderate-income census tracts.

During the examination period, grants and donations meeting the definition of qualified investments totaled \$3,084. All grants and donations were directed to organizations within the bank's assessment area that provide community services to low- and moderate-income individuals, such as child care facilities and medical services.

SERVICE TEST

Interchange's rating on the service test is **High satisfactory** and is based on the bank's record of providing a high level of banking services in its assessment area. The bank's delivery systems are accessible to essentially all portions of the bank's assessment area and services do not vary in a way that inconveniences certain portions of the assessment area. Given its size and resources, Interchange also provides a relatively high level of community services.

Accessibility of Delivery Systems

The bank's delivery systems, including the branch network, ATMs and alternative banking functions such as telephone access and direct deposit, are accessible to essentially all portions of Interchange's assessment area.

Interchange serves its assessment area with a network of 12 branches, including the main office in Saddle Brook.

Branches are located in Elmwood Park, Franklin Lakes, Garfield, Hillsdale, Little Ferry, Lodi, Oakland, Park Ridge, Rochelle Park, Saddle Brook and Washington Township. While no branches are located in low-income census tracts, the Garfield branch, which represents 8 percent of the total, is located in a moderate-income census tract. Of the remaining 11 branches, six are in middle-income tracts and five are in upper-income tracts. This distribution is consistent with the assessment area's census tract distribution. In addition, Interchange maintains two off-site, cash only, ATM installations in Grand Union Supermarkets located in Hackensack and Montvale. Neither location is in a low- or moderate-income census tract.

Changes in Branch Locations

Since the last examination, Interchange closed a branch in Paramus (Bergen County) and consolidated the deposits into the Washington Township office. A branch in Clifton (Passaic County) was closed by selling the deposits to another financial institution. Neither closed location was in a low- or moderate-income census tract. Also during the examination period, the bank opened a new branch location in Oakland (Bergen County).

Interchange has an adequate branch closing policy in place which conforms to the Joint Interagency Policy Statement Regarding Branch Closings. The policy requires the bank to analyze the impact of a branch closing or relocation on the local community, based on objective standards such as profitability and the proximity of alternative banking facilities. The branch closings noted here were consistent with the bank's policy. Based on the number and proximity of alternative financial institutions, it does not appear that customers, particularly those in low- and moderate-income-communities, have been adversely impacted by the bank's closing activities.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

The bank's business hours are reasonable and meet the needs of the assessment area. Extended evening and Saturday hours are provided, and ATMs, connected to major national and regional networks, are available at 10 locations.

Renovations made in 1996 to the Garfield branch included the addition of an ATM, resulting in additional services being available at this moderate-income census tract location.

Interchange offers 24-hour, seven-day access to **Bank-Line**, a toll-free service which provides deposit and loan rate updates, as well as deposit, loan and other account information. Bank-Line also provides a direct bill payment feature. The bank accepts the direct deposit of Social Security and payroll checks and provides its business customers with the ability to offer employees payroll direct deposit.

Community Development Services

Based on its size and resources, Interchange provides a relatively high level of community development services. Management has initiated several products not generally made available in the bank's assessment area that particularly benefit low- and moderate-income consumers. The ACare-Free® checking product provides checking services without monthly or per check service charges or minimum balance requirements. The required opening balance is only \$100. This pricing structure is less costly than the state mandated affordable checking account. Community contacts noted a need within the assessment area for lower cost accounts that have small opening balance requirements.

The bank also offers a Grow=N Up savings account designed to help encourage savings habits in children. Staff members have been active in making presentations on this topic at schools in the bank's assessment area, including Lodi and Garfield, and occasionally visit the schools to receive deposits.

Senior management has been proactive in providing educational and technical assistance for the support and development of small businesses. The bank president makes regular appearances on cable television and radio, where he discusses financing, preparation of business plans, resource availability and services provided by the SBA. The bank is associated with a local community college where it makes referrals for assistance in starting businesses and preparing business plans.

During the year, management held two seminars at its headquarters= office. One was devoted to small business topics and the other was directed toward savings and investment issues. Bank personnel also make presentations at local organizations and participate in business expos.

COMPLIANCE WITH FAIR LENDING LAWS

No credit practices were identified that violated the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act and the Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

EXHIBIT A

| MSA 0875 (BERGEN-PASSAIC, NJ) | | | | | |
|--------------------------------------|--------------------------------------|-----------|---------|---------|------------------|
| DEMOGRAPHIC SUMMARY | | | | | |
| | Census Tracts by Income Level | | | | Total |
| | Low- | Moderate- | Middle- | Upper- | |
| Census Tracts for Analysis* | 22 | 46 | 129 | 67 | 264 |
| % of Tracts for Analysis | 8.30% | 17.4% | 48.9% | 25.4% | 100% |
| Total Population | 53,962 | 239,459 | 667,709 | 317,310 | 1,278,440 |
| % of Total Population | 4.2% | 18.7% | 52.2% | 24.8% | 100% |
| Families Residing In | 11,759 | 59,335 | 182,365 | 89,715 | 343,174 |
| % of Families Residing In | 3.4% | 17.3% | 53.1% | 26.1% | 100% |
| Owner-Occupied Housing Units | 2,343 | 32,642 | 167,670 | 93,790 | 296,445 |
| % of Owner-Occupied Units | 1.0% | 11.0% | 56.6% | 31.6% | 100% |
| Rental-Occupied Housing Units | 13,852 | 52,549 | 87,382 | 13,921 | 167,704 |
| % of Rental-Occupied Units | 8.3% | 31.3% | 52.1% | 8.3% | 100% |
| Total Business Establishments | 2,231 | 8,898 | 29,182 | 14,463 | 54,774 |
| % of Business Establishments | 4.1% | 16.2% | 53.3% | 26.4% | 100% |

*39 low-income census tracts contain no housing or population and were not used in the analysis.

EXHIBIT B

| BERGEN COUNTY DEMOGRAPHIC SUMMARY | | | | | |
|--|--------------------------------------|---------------------|-------------------|------------------|----------------|
| | Census Tracts by Income Level | | | | Total |
| | Low- Income | Moderate- Income | Middle- Income | Upper- Income | |
| Census Tracts for Analysis* | 5 | 21 | 93 | 58 | 177 |
| % of Tracts for Analysis | 3.0% | 11.9% | 52.5% | 32.8% | 100% |
| Total Population | 95 | 96,713 | 453,121 | 275,451 | 825,380 |
| % of Total Population | 0% | 11.7% | 54.9% | 33.4% | 100% |
| Families Residing In | 27 | 25,098 | 123,562 | 78,332 | 227,019 |
| % of Families Residing In | 0% | 11.1% | 54.4% | 34.5% | 100% |
| Owner-Occupied Housing Units | 35 | 16,069 | 112,083 | 81,630 | 209,807 |
| % of Owner-Occupied Units | 0% | 7.7% | 53.4% | 38.9% | 100% |
| Rental-Occupied Housing Units | 26 | 22,595 | 63,764 | 12,688 | 99,073 |
| % of Rental-Occupied Units | 0% | 22.8% | 64.4% | 12.8% | 100% |
| Total Business Establishments | 10 | 5,587 | 20,202 | 12,688 | 38,487 |
| % of Business Establishments | 0% | 14.5% | 52.5% | 33.0% | 100% |

*33 low-income census tracts contain no population or housing and were not used for analysis.

EXHIBIT C

**Owner-Occupied Unit Analysis for Refinancing & Home Purchase Loans Across Census Tract Income Levels
September 1, 1995 through March 31, 1997
including Passaic County Data for September 1, 1995 through December 31, 1996**

| | Bergen | Passaic | MSA 0875 Total |
|---------------------------------------|---------------|----------------|-----------------------|
| Low Income Tracts | | | |
| # of Owner Occupied Units | 35 | 2,308 | 2,343 |
| # of Loans | 0 | 0 | 0 |
| # of Loans Per 1,000 Units | 0 | 0 | 0 |
| Moderate Income Tracts | | | |
| # of Owner Occupied Units | 16,059 | 16,583 | 32,642 |
| # of Loans | 28 | 9 | 37 |
| # of Loans Per 1,000 Units | 1.74 | 0.54 | 1.13 |
| Low-and Moderate Income Tracts | | | |
| # of loans Per 1,000 Units | 1.74 | .48 | 1.06 |
| Middle Income Tracts | | | |
| # of Owner Occupied Units | 112,083 | 55,587 | 167,670 |
| # of Loans | 278 | 60 | 338 |
| # of Loans Per 1,000 Units | 2.48 | 1.08 | 2.02 |
| Upper Income Tracts | | | |
| # of Owner Occupied Units | 81,630 | 12,160 | 93,790 |
| # of Loans | 270 | 10 | 280 |
| # of Loans Per 1,000 Units | 3.31 | 0.82 | 2.99 |
| Middle-and Upper-Income Tracts | | | |
| # of loans Per 1,000 Units | 2.83 | 1.03 | 2.36 |
| Total Census Tracts | | | |
| # of Owner Occupied Units | 209,807 | 86,638 | 296,445 |
| # of Loans | 576 | 79 | 655 |
| # of Loans Per 1,000 Units | 2.75 | 0.91 | 2.21 |

EXHIBIT D

**Owner-Occupied Unit Analysis for Home Improvement Loans Across Census Tract Income Levels
September 1, 1995 through March 31, 1997
including Passaic County Data for September 1, 1995 through December 31, 1996**

| | Bergen | Passaic | MSA 0875 Total |
|------------------------------------|---------------|----------------|-----------------------|
| Low Income Tracts | | | |
| Owner Occupied Units | 35 | 2,308 | 2,343 |
| Loans | 0 | 2 | 2 |
| Loans Per 1,000 Units | 0 | 0.87 | 0.85 |
| Moderate Income Tracts | | | |
| Owner Occupied Units | 16,059 | 16,583 | 32,642 |
| Loans | 14 | 14 | 28 |
| Loans Per 1,000 Units | 0.87 | 0.84 | 0.86 |
| High Moderate Income Tracts | | | |
| Loans Per 1,000 Units | .87 | .85 | .86 |
| Upper Income Tracts | | | |
| Owner Occupied Units | 112,083 | 55,587 | 167,670 |
| Loans | 114 | 25 | 139 |
| Loans Per 1,000 Units | 1.02 | 0.45 | 0.83 |
| Low and Upper Income Tracts | | | |
| Owner Occupied Units | 81,630 | 12,160 | 93,790 |
| Loans | 120 | 10 | 130 |
| Loans Per 1,000 Units | 1.47 | 0.82 | 1.39 |
| Low and Upper Income Tracts | | | |
| Loans Per 1,000 Units | 1.21 | .52 | 1.03 |
| All Census Tracts | | | |
| Owner Occupied Units | 209,807 | 86,638 | 296,445 |
| Loans | 248 | 51 | 299 |
| Loans Per 1,000 Units | 1.18 | 0.59 | 1.01 |

EXHIBIT E
Demand-Adjusted Analysis for Small Business Loans* Across Census Tract Income Levels
January 1, 1996 through March 31, 1997
including Passaic County Data for January 1, 1996 through December 31, 1996

| | Bergen | Passaic | MSA 0875 Total |
|--|---------------|----------------|-----------------------|
| Low Income Tracts | | | |
| Businesses | 10 | 2,221 | 2,231 |
| Loans | n/a | 1 | 3 |
| Loans Per 1,000 Businesses | 200 | .45 | 1.34 |
| Moderate Income Tracts | | | |
| Businesses | 5,587 | 3,311 | 8,898 |
| Loans | 33 | 4 | 37 |
| Loans Per 1,000 Businesses | 5.91 | 1.21 | 4.16 |
| High and Moderate Income Tracts | | | |
| Loans Per 1,000 Units | 6.25 | .90 | 3.59 |
| Low and Upper Income Tracts | | | |
| Businesses | 20,202 | 8,980 | 29,182 |
| Loans | 91 | 3 | 94 |
| Loans Per 1,000 Businesses | 4.50 | .33 | 3.22 |
| High Income Tracts | | | |
| Businesses | 12,688 | 1,775 | 14,463 |
| Loans | 54 | 1 | 55 |
| Loans Per 1,000 Businesses | 4.26 | .56 | 3.80 |
| Low and Upper Income Tracts | | | |
| Loans Per 1,000 Units | 4.41 | .37 | 3.41 |
| Census Tracts | | | |
| Businesses | 38,487 | 16,287 | 54,774 |
| Loans | 180 | 9 | 189 |
| Loans Per 1,000 Businesses | 4.68 | .55 | 3.45 |

The small business loans analyzed in this table include business loans reported under CRA.

EXHIBIT F
Demand-Adjusted Analysis for Small Business Loans Made to Businesses with
Annual Revenues of \$1 Million or Less Across Census Tract Income Levels
January 1, 1996 through March 31, 1997
including Passaic County Data for January 1, 1996 through December 31, 1996

| | Bergen | Passaic | MSA 0875 Total |
|----------------------------------|---------------|----------------|-----------------------|
| Income Tracts | | | |
| Small Businesses | 9 | 1,845 | 1,854 |
| Loans | 2 | 1 | 3 |
| Loans Per 1,000 Small Businesses | N/A | 0.54 | 1.62 |
| Rate Income Tracts | | | |
| Small Businesses | 4,362 | 2,710 | 7,072 |
| Loans | 16 | 3 | 19 |
| Loans Per 1,000 Small Businesses | 3.67 | 1.11 | 2.69 |
| High Income Tracts | | | |
| Small Businesses | 16,265 | 7,245 | 23,510 |
| Loans | 45 | 1 | 46 |
| Loans Per 1,000 Small Businesses | 2.77 | .14 | 1.96 |
| Low Income Tracts | | | |
| Small Businesses | 10,409 | 1,482 | 11,891 |
| Loans | 36 | 1 | 37 |
| Loans Per 1,000 Small Businesses | 3.46 | 0.67 | 3.11 |
| Census Tracts | | | |
| Small Businesses | 31,045 | 13,282 | 44,327 |
| Loans | 99 | 6 | 105 |
| Loans Per 1,000 Small Businesses | 3.19 | 0.45 | 2.37 |

The loans analyzed in this table are a subset of the small business loans analyzed in Exhibit E.

EXHIBIT G
Distribution of Consumer Loans Across Census Tract Income Levels
January 1, 1996 through March 31, 1997
including Passaic County Data for January 1, 1996 through December 31, 1996

| | Bergen | Passaic | MSA 0875 Total |
|--------------------------------|---------------|----------------|-----------------------|
| Income Tracts | | | |
| Number of Loans | 0 | 1 | 1 |
| Percent of Total | 0 | 2.6% | .26% |
| Total Amount of Loans | 0 | \$10 | \$10 |
| Percent of Total | 0 | .85% | .076% |
| Mid-Range Income Tracts | | | |
| Number of Loans | 21 | 3 | 24 |
| Percent of Total | 6% | 8% | 6% |
| Total Amount of Loans | \$435 | \$154 | \$589 |
| Percent of Total | 4% | 13% | 5% |
| High Income Tracts | | | |
| Number of Loans | 155 | 31 | 186 |
| Percent of Total | 46% | 82% | 49% |
| Total Amount of Loans | \$5,515 | \$832 | \$6,347 |
| Percent of Total | 46% | 71% | 49% |
| Very High Income Tracts | | | |
| Number of Loans | 165 | 3 | 168 |
| Percent of Total | 48% | 8% | 44% |
| Total Amount of Loans | \$5,934 | \$179 | \$6,113 |
| Percent of Total | 50% | 15% | 47% |

| | | | |
|-----------------------|----------|---------|----------|
| | | | |
| Number of Loans | 341 | 38 | 379 |
| Total Amount of Loans | \$11,884 | \$1,175 | \$13,059 |

EXHIBIT H

**Distribution of Refinancing & Home Purchase Loans Across Applicant Income Levels
September 1, 1995 through March 31, 1997
including Passaic County Data for September 1, 1995 through December 31, 1996**

| | Bergen | Passaic | MSA 0875 Total |
|------------------------------------|---------------|----------------|-----------------------|
| Income Applicants | | | |
| Number of Loans | 29 | 6 | 35 |
| % of Total | 5% | 8% | 5% |
| Dollar Amount of Loans (000s) | \$962 | \$154 | \$1,116 |
| % of Total | 2% | 3% | 2% |
| Mid-Range Income Applicants | | | |
| Number of Loans | 84 | 17 | 101 |
| % of Total | 15 | 22% | 15% |
| Dollar Amount of Loans (000s) | \$4,022 | \$836 | \$4,858 |
| % of Total | 9% | 18% | 10% |
| High Income Applicants | | | |
| Number of Loans | 191 | 31 | 222 |
| % of Total | 33% | 39% | 34% |
| Dollar Amount of Loans (000s) | \$12,666 | \$1,641 | \$14,307 |
| % of Total | 29% | 35% | 30% |
| Very High Income Applicants | | | |
| Number of Loans | 272 | 25 | 297 |
| % of Total | 47% | 32% | 45% |
| Dollar Amount of Loans (000s) | \$25,550 | \$2,060 | \$27,610 |
| % of Total | 59% | 44% | 58% |
| Total | | | |
| Number of Loans | 576 | 79 | 655 |
| Dollar Amount of Loans (000s) | \$43,200 | \$4,691 | \$47,891 |

EXHIBIT I
Distribution of Home Improvement Loans Across Applicant Income Levels
September 1, 1995 through March 31, 1997
including Passaic County Data for September 1, 1995 through December 31, 1996

| | Bergen | Passaic | MSA 0875 Total |
|------------------------------------|---------------|----------------|-----------------------|
| Income Applicants | | | |
| Number of Loans | 13 | 3 | 16 |
| % of Total | 5% | 8% | 6% |
| Dollar Amount of Loans (000s) | \$279 | \$45 | \$324 |
| % of Total | 4% | 4% | 4% |
| Mid-Range Income Applicants | | | |
| Number of Loans | 34 | 7 | 41 |
| % of Total | 14% | 18% | 15% |
| Dollar Amount of Loans (000s) | \$1,032 | \$76 | \$1,108 |
| % of Total | 13% | 7% | 12% |
| High Income Applicants | | | |
| Number of Loans | 62 | 16 | 78 |
| % of Total | 26% | 42% | 28% |
| Dollar Amount of Loans (000s) | \$1,696 | \$614 | \$2,310 |
| % of Total | 22% | 53% | 26% |
| Very High Income Applicants | | | |
| Number of Loans | 129 | 12 | 141 |
| % of Total | 54% | 32% | 51% |
| Dollar Amount of Loans (000s) | \$4,822 | \$422 | \$5,244 |
| % of Total | 62% | 36% | 58% |
| Total | | | |
| Number of Loans | 238 | 38 | 276 |
| Dollar Amount of Loans (000s) | \$7,829 | \$1,157 | \$8,986 |

EXHIBIT J
Distribution of Consumer Loans Across Applicant Income Levels
January 1, 1996 through March 31, 1997
including Passaic County Data for January 1, 1996 through December 31, 1996

| | Bergen | Passaic | MSA 0875 Total |
|-------------------------------|---------------|----------------|-----------------------|
| Income Applicants | | | |
| Number of Loans | 77 | 8 | 85 |
| % of Total | 25% | 22% | 25% |
| Dollar Amount of Loans | \$4,223 | \$393 | \$4,616 |
| % of Total | 38% | 35% | 38% |
| Low Income Applicants | | | |
| Number of Loans | 60 | 8 | 68 |
| % of Total | 19% | 22% | 20% |
| Dollar Amount of Loans | \$937 | \$85 | \$1,022 |
| % of Total | 9% | 8% | 8% |
| Mid Income Applicants | | | |
| Number of Loans | 82 | 11 | 93 |
| % of Total | 26% | 31% | 27% |
| Dollar Amount of Loans | \$1,683 | \$304 | \$1,987 |
| % of Total | 15% | 27% | 16% |
| High Income Applicants | | | |
| Number of Loans | 92 | 9 | 101 |
| % of Total | 30% | 25% | 29% |
| Dollar Amount of Loans | \$4,239 | \$328 | \$4,567 |
| % of Total | 38% | 30% | 37% |
| | | | |
| | | | |

| | | | |
|------------------------|----------|---------|----------|
| Number of Loans | 311 | 36 | 347 |
| Dollar Amount of Loans | \$11,082 | \$1,110 | \$12,192 |

EXHIBIT K
Distribution of Small Business & Farm Loans By Loan Size & By Business Size*
January 1, 1996 through March 31, 1997
including Passaic County Data for January 1, 1996 through December 31, 1996

| | Bergen | | Passaic | | MSA 0875 Total | |
|--|--|---------|--|-------|--|---------|
| | <i>All Businesses/Small Businesses</i> | | <i>All Businesses/Small Businesses</i> | | <i>All Businesses/Small Businesses</i> | |
| Business Loans \$100m | | | | | | |
| Number of Loans | 132 | 85 | 7 | 6 | 139 | 91 |
| % of Total | 73% | 86% | 78% | 100% | 74% | 87% |
| ollar Amount of Loans (000s) | \$4,949 | \$2,607 | \$335 | \$285 | \$5,284 | \$2,892 |
| % of Total | 24% | 39% | 14% | 100% | 23% | 41% |
| Business Loans > \$100m \$250m | | | | | | |
| Number of Loans | 31 | 8 | 0 | 0 | 31 | 8 |
| % of Total | 17% | 8% | 0 | 0 | 16% | 8% |
| ollar Amount of Loans (000s) | \$5,475 | \$1,340 | 0 | 0 | \$5,475 | \$1,340 |
| % of Total | 27% | 20% | 0 | 0 | 24% | 19% |
| Business Loans > \$250m | | | | | | |
| Number of Loans | 17 | 6 | 2 | 0 | 19 | 6 |
| % of Total | 9% | 6% | 22% | 0 | 10% | 6% |
| ollar Amount of Loans (000s) | \$9,957 | \$2,826 | \$2,000 | 0 | \$11,957 | \$2,826 |
| % of Total | 49% | 42% | 86% | 0 | 53% | 40% |
| Total | | | | | | |
| Number of Loans | 180 | 99 | 9 | 6 | 189 | 105 |
| ollar Amount of Loans (000s) | \$20,381 | \$6,773 | \$2,335 | \$285 | \$22,716 | \$7,058 |

* Small Businesses are defined as those businesses with annual revenues of \$1 million or less.

All Businesses include both those business with annual revenues of \$1 million or less and those with annual revenues greater than \$1 million.

APPENDIX A

| | | | |
|---|---------------------|------------------------|---|
| SCOPE OF EXAMINATION | | | |
| | | | |
| TIME PERIOD REVIEWED | 9/1/95 TO 3/31/97 | | |
| | | | |
| FINANCIAL INSTITUTION | | | PRODUCTS REVIEWED |
| Interchange State Bank Saddle Brook, NJ | | | C Residential Mortgage Loans C Small Business Loans C Consumer Loans |
| | | | |
| AFFILIATE(S) | | | PRODUCTS REVIEWED |
| NONE | | | |
| | | | |
| LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION | | | |
| ASSESSMENT AREA | TYPE OF EXAM | BRANC H VISITED | OTHER INFORMATIO N |
| Bergen County, NJ | On-Site | 2 | |
| | | | |

APPENDIX B

GLOSSARY OF IMPORTANT TERMS

CONSUMER LOANS: Loans made to one or more individuals for household, family, or other personal expenditures. Consumer loans do not include HMDA loans.

DEMAND-ADJUSTED: Proportion of applications and of loans per thousand owner-occupied housing units in an area, or proportion of small-business loans per thousand small business establishments in an area, as applicable.

HMDA LOANS: Refers to loans reported by the bank under the Home Mortgage Disclosure Act - Regulation C. They include home purchase mortgage loans, refinance mortgage loans and home improvement loans.

LOW-INCOME: An individual income that is less than 50 percent of the median family income in an MSA or a census tract in which the median family income is less than 50 percent of the median family income in an MSA.

MIDDLE-INCOME: An individual income that is at least 80 percent and less than 120 percent of the median family income in an MSA or a census tract in which the median family income is at least 80 percent and less than 120 percent of the median family income in an MSA.

MODERATE-INCOME: An individual income that is at least 50 percent and less than 80 percent of the median family income in an MSA or a census tract in which the median family income is at least 50 percent and less than 80 percent of the median family income in an MSA.

MSA: A metropolitan statistical area or a primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

SMALL BUSINESS LOANS: Such loans are defined in Regulation BB, Section 228.12 (u) with reference to the definition of such loans in the instructions for preparation of the Consolidated Report of Income. These instructions define small business loans as loans with original amounts of \$1 million or less that have been reported in Schedule RC-C, Part 1, (1.e)(4) of the report.

UPPER-INCOME: An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.