

PUBLIC DISCLOSURE

AUGUST 3, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**BANCO POPULAR DE PUERTO RICO
02-72-0060**

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NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act ("CRA") requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **Banco Popular de Puerto Rico** prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency, as of **August 3, 1998**. The agency evaluates performance in assessment area(s) as they are delineated by the institution rather than by 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: Banco Popular de Puerto Rico is rated “**OUTSTANDING.**”

The level of compliance of Banco Popular de Puerto Rico (“Banco Popular”) with the CRA is based on an evaluation of the performance criteria for large retail institutions specified under the CRA with respect to the lending, investment and service tests.

Performance under the lending test is rated “outstanding” based on the following findings:

- The number of home improvement and home purchase loans and refinancings of such loans, and small business loans originated by the bank and its affiliates during the examination period shows an excellent responsiveness to credit needs in the bank’s assessment areas. In 1997, the bank was the primary provider of home improvement and small business loans in Puerto Rico.
- The overall geographic distribution of loans reflects excellent loan penetration throughout the assessment areas, especially in low- and moderate-income (“LMI”) areas. Some weaknesses were noted in the geographic distribution of home purchase or home improvement loans in specific MSAs and municipalities in Puerto Rico.
- There was an acceptable distribution of loans among borrowers of different income levels, given the low income levels in the bank’s assessment areas.
- The distribution of loans to businesses of different sizes was excellent. Eighty-three percent of the bank’s small business loans were for amounts of \$100 thousand or less indicating the bank is meeting the credit needs of smaller size businesses. In addition, of all small business loans, 64 percent of loans originated during the examination period were to businesses with gross annual revenues of \$1 million or less.
- The level of community development lending was outstanding totaling \$55.7 million.

Performance under the investment test is rated “outstanding” based on the following finding:

- The bank level of qualified investments was outstanding totaling \$83.4 million.

Performance under the service test is rated “outstanding” based on the following findings:

- The bank’s delivery systems were accessible to essentially all portions of the bank’s assessment areas.

- Changes in branch locations did not adversely affect the accessibility of the bank's delivery systems and business hours and services did not vary in a way that inconvenienced certain portions of the assessment areas.
- The bank provided a high level of community development services through seminars, in-kind donations, technical assistance, and special products and services.

The following table summarizes the performance level of Banco Popular de Puerto Rico with respect to the lending, investment and service tests.

PERFORMANCE LEVELS	<u>BANCO POPULAR DE PUERTO RICO</u>		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding	X	X	X
High Satisfactory			
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			

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

DESCRIPTION OF INSTITUTION

Banco Popular, headquartered in San Juan, Puerto Rico, is a full-service commercial bank focusing on retail financial services and commercial services to small- and middle-market businesses. The bank, organized under the banking laws of the Commonwealth of Puerto Rico, is a wholly owned subsidiary of Popular, Inc. (previously BanPonce Corporation), San Juan, Puerto Rico. Subsidiaries of Banco Popular include Popular Finance, Inc., a small loan and secondary mortgage company; Popular Leasing and Rental, Inc., a finance leasing, equipment leasing, and daily motor and equipment rental company; and Popular Mortgage, Inc., a mortgage origination and secondary marketing subsidiary. As of March 31, 1998, the bank had total assets of \$16.7 billion, net loans and leases of \$9.3 billion, and total deposits of \$10.7 billion. Of the bank's total assets, \$14.9 billion or 89 percent were in Puerto Rico. The holding company had total consolidated assets of approximately \$20 billion, as of March 31, 1998.

On July 1, 1997, Banco Popular acquired and merged Roig Commercial Bank ("Roig"), based in Humaco, Puerto Rico. At the time of acquisition, Roig operated 25 retail branches and had total assets of \$790 million and total deposits of \$582 million.

As of the examination date, August 3, 1998, Banco Popular operated 231 retail branches in its assessment areas, including 195 in Puerto Rico, 29 in New York City and 7 in the United States Virgin Islands ("USVI"). Approximately 82 percent or \$8.8 billion of deposits were in Puerto Rico, while 15 percent or \$1.6 billion were in New York City and 3 percent or \$300 million were in the USVI, as of March 31, 1998.

Banco Popular's previous CRA examination was conducted as of June 2, 1997, at which time the bank received an overall rating of outstanding. There are no financial or legal factors that would impede Banco Popular in fulfilling its responsibilities under the CRA.

DESCRIPTION OF ASSESSMENT AREAS

The bank's assessment areas include all or portions of four Primary Metropolitan Statistical Areas ("PMSAs"), three Metropolitan Statistical Areas ("MSAs") and certain non-MSAs. There are 11 assessment areas in Puerto Rico, one in New York State and two in the USVI, as follows:

PUERTO RICO

- PMSA 7440 (San Juan-Bayamon, PR)
- MSA 6360 (Ponce, PR)
- MSA 4840 (Mayaguez, PR)
- MSA 0060 (Aguadilla, PR)
- PMSA 1310 (Caguas, PR)

- PMSA 0470 (Arecibo, PR)
- Non-MSA 1 consisting of the contiguous non-MSA municipalities of Adjuntas, Aibonito, Arroyo, Barranquitas, Ciales, Coamo, Guayama, Isabela, Jayuya, Lares, Las Marias, Maunabo, Maricao, Orocovis, Pattillas, Quebradillas, Salinas, San Sabastian, Santa Isabel, and Utuado.
- Non-MSA 2 consisting of the contiguous non-MSA municipalities of Guanica and Lajas.
- Non-MSA 3 consisting of the non-MSA municipality of Rincon.
- Non-MSA 4 consisting of the non-MSA island of Culebra.
- Non-MSA 5 consisting of the non-MSA island of Vieques.

NEW YORK STATE

- A portion of PMSA 5600 (New York, NY) consisting of Bronx, Kings, New York and Queens Counties.

UNITED STATES VIRGIN ISLANDS

- The non-MSA island of St. Thomas.
- The non-MSA island of St. Croix.

The bank's assessment areas have not changed since the prior examination. They are in compliance with the requirements of Section 228.41 of Regulation BB and do not arbitrarily exclude any LMI geographies.

According to the 1990 Census, total population in the Banco Popular assessment areas is 10.6 million, 65 percent of which resides in New York State. Although most of the population is in the New York assessment area, the bank's primary business focus is in Puerto Rico. The Puerto Rico assessment areas contain 84 percent of the bank's branches, 82 percent of deposits and 89 percent of assets.

While the demographic characteristics of the assessment areas vary greatly, credit and community development needs are similar. There is a strong need for affordable housing and for loans to rehabilitate existing housing units. Other credit needs include small business loans to encourage the creation or expansion of small businesses. Specific demographic data and information about credit needs are contained in the description of each Banco Popular assessment area.

The following map represents the delineation of Banco Popular's assessment areas:

INSERT MAP OF ASSESSMENT AREA

SCOPE OF EXAMINATION

The performance of the bank was evaluated in the Puerto Rico and USVI assessment areas only. On November 16, 1998 the bank received regulatory approval to consolidate several U.S. banking operations, including New York, into a new corporate entity, Banco Popular, NY. The new bank is expected to commence operations in January 1999. Performance in the New York State assessment area will be evaluated as part of the future CRA examination of the new bank. The combined Puerto Rico and USVI assessment areas represent approximately 85 percent of the bank's total deposits, 87 percent retail branches and 92 percent of total bank assets. Overall conclusions regarding the bank's CRA performance were based primarily on performance in Puerto Rico. Of the combined Puerto Rico and USVI assessment areas, 97 percent of the bank's branches and 97 percent of deposits are in the Puerto Rico assessment areas.

Banco Popular's assessment areas represent all of Puerto Rico and the islands of St. Thomas and St. Croix in the USVI. A full-scope analysis of the bank's performance was conducted using the Interagency Procedures and Guidelines for Large Retail Institutions in the following assessment areas, which heavily influenced the overall rating: PMSA 7440 (San Juan-Bayamon, PR), MSA 6360 (Ponce, PR), MSA 4840 (Mayaguez, PR) and MSA 0060 (Aguadilla, PR). Collectively, these assessment areas represent 72 percent of the population, 86 percent of the population living in LMI geographies, 85 percent of deposits, and 76 percent of branches in Banco Popular's Puerto Rico assessment areas. At this examination, the four areas also represent 75 percent of mortgage and home improvement loan activity and 76 percent of small business and small farm loan activity. This level of analysis was also conducted for the USVI assessment areas.

An analysis using portions of the interagency procedures for the lending, investment and service tests was conducted for PMSA 1310 (Caguas, PR), PMSA 0470 (Arecibo, PR) and all the non-MSA assessment areas in Puerto Rico to determine Banco Popular's general level of performance in these assessment areas.

In Puerto Rico, the bank's performance in PMSA 7440 (San Juan-Bayamon, PR) – which contains 52 percent of the population, 59 percent of the bank's branches and 75 percent of the bank's deposits in Puerto Rico – heavily influenced the overall rating.

The data used to evaluate Banco Popular's CRA performance covered the period April 1, 1997, through March 31, 1998. Loan products evaluated included home purchase loans and refinancings of such loans (which were evaluated together), home improvement loans, small business and small farm loans (also evaluated together) and other loans that qualified as community development loans. Community development loan originations covered the period June 1, 1997, through March 31, 1998. In addition, bank investments, grants and services qualifying as community development were also included in the evaluation.

The evaluation included mortgage and home improvement loans as reported pursuant to Regulation C- Home Mortgage Disclosure Act ("HMDA") and originated by Banco Popular and its affiliates Popular Mortgage, Inc. and Popular Finance, Inc. Of the total home purchase loans and refinancings used for analysis, Popular Mortgage reported 3,736 or 52 percent, Banco

Popular reported 3,183 or 44 percent, and Popular Finance reported 249 or 4 percent. Banco Popular reported 98 percent of all home improvement loans used for analysis. These loan originations were in Puerto Rico only. Reporting requirements under Regulation C are not applicable with respect to dwellings in U.S. territories. Management supplied data for mortgage loans originated by Banco Popular in the USVI.

Home improvement loans totaled 14,008 or 66 percent of all HMDA-related loan activity during the examination period. Because of this volume of lending and the limited availability of affordable housing lending opportunities, as well as the fact that home improvement lending is an important and documented credit need in the assessment areas, home improvement lending activity was given more weight in the evaluation than home purchase loans and refinancings.

For evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 census income data. Determination of the distribution of loans to borrowers of different income levels was based on 1997 HUD estimated median family income data.

In evaluating the geographic distribution of the bank's loans, a demand-adjusted analysis was performed for HMDA-related loans, comparing the proportion of loans per thousand owner-occupied housing units in LMI areas and non-LMI areas. As a result of the absence of information regarding the number of small business establishments located in LMI and non-LMI areas, a demand-adjusted analysis was not conducted for small business loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

- The number of HMDA-related and small business loans originated by the bank during the examination period shows an excellent responsiveness to credit needs in the bank's assessment areas. Based on 1997 aggregate data, Banco Popular originated 70 percent of all home improvement and 71.5 percent of all small business loans in Puerto Rico.
- The overall geographic distribution of loans reflects excellent loan penetration throughout the assessment areas, especially in LMI geographies. Some weaknesses were noted in the geographic distribution of home purchase or home improvement loans in certain MSAs and municipalities in Puerto Rico.
- There was an acceptable distribution of loans among borrowers of different income levels, given the significant gap between borrower income levels and housing costs in the bank's assessment areas.
- The distribution of loans to businesses of different sizes was excellent. Eighty-three percent of the bank's small business loans were for amounts of \$100 thousand or less, indicating the bank is meeting the credit needs of smaller size businesses. In addition, of all small business loans, 64 percent of loans originated during the examination period were to businesses with gross annual revenues of \$1 million or less.
- Banco Popular's level of community development lending was outstanding totaling \$55.7 million.

INVESTMENT TEST

- The level of qualified investments was outstanding totaling \$83.4 million.

SERVICE TEST

- Banco Popular's delivery systems were accessible to essentially all portions of the bank's assessment areas.
- Changes in branch locations did not adversely affect the accessibility of the bank's delivery systems, and business hours and services did not vary in a way that inconvenienced certain portions of the assessment areas.
- Banco Popular provided a high level of community development services through seminars, in-kind donations, technical assistance, and special products and services.

LENDING TEST

Banco Popular's record of meeting the credit needs of its assessment areas through its lending activity is rated outstanding.

Lending Activity

Banco Popular's lending activity reflects an excellent response to the credit needs of its assessment areas. The bank addressed credit needs by offering and originating a significant volume of lending to include home improvement and home purchase loans and refinancings, and small business loans within the bank's assessment areas.

During the examination period, 41,742 loans totaling \$2.3 billion were originated, consisting of 21,302 HMDA-related, 20,210 small business and 230 small farm loans. Of the 21,302 HMDA-related loans originated, 66 percent or 14,008 loans were home improvement loans.

Since the prior examination (June 2, 1997), Banco Popular exhibited a significant increase in HMDA-related and small business lending on an annualized basis. HMDA-related loans increased 41 percent while small business loans increased 43 percent. Increased loan volumes are attributed, in part, to the acquisition of Roig Commercial Bank, which afforded the bank additional branch outlets. Also, some of the increase in small business lending is attributable to an increased number of loans being reported based on the regulatory definition of a small business loan and the revised regulation.

Since the prior examination, small farm lending decreased 55 percent on an annualized basis. Management said this decline is primarily a function of the growth in farm size resulting in larger credit needs that no longer meet the definition of small farm loans.

Virtually all lending activity occurred in the Puerto Rico assessment areas, which represent the largest portion of the bank's assessment areas included in this examination. Ninety-nine percent of HMDA-related and small business loans were originated in the Puerto Rico assessment areas, representing 21,122 and 20,060 loans, respectively. For details see Exhibit 1.

Geographic Distribution of Lending

Overall, the analysis demonstrates excellent loan activity among the low-, moderate-, middle- and upper-income geographies in the bank's assessment areas. For details see Exhibits 2 through 4.

Home Improvement Loans

Overall, the geographic distribution of home improvement loans reflects excellent demand-adjusted distribution throughout the bank's assessment areas. On a demand-adjusted basis, the level of loan originations in LMI census tracts and block numbering areas (hereinafter referred to as "geographies") was 1.2 times greater than in non-LMI geographies. Performance was

particularly strong in the USVI where lending in LMI geographies was 1.7 times greater than in non-LMI geographies.

Home Purchase Loans and Refinancings

The overall geographic distribution of home purchase loans and refinancings reflects good penetration in the bank's assessment areas. On a demand-adjusted basis, the level of loan originations in LMI geographies was equivalent to originations in non-LMI geographies. Strong performance was noted in the USVI where originations in LMI geographies were 3.5 times greater than originations in non-LMI geographies.

Small Business Loans

The overall geographic distribution of small business loans reflects excellent penetration throughout all assessment areas. The level of small business lending in each of the bank's assessment areas was comparable to the distribution of branches and population within each assessment area. During the examination period, approximately 18 percent of small business loans were originated in LMI geographies.

Borrower Characteristics

The distribution of borrowers of home improvement and home purchase loans and refinancings reflects an acceptable penetration among borrowers of different income levels, given the housing cost and income issues documented in the description of the Puerto Rico and USVI assessment areas on pages BB27 and BB110. Small business loans showed an excellent distribution of loans to small businesses, with most loans originated for \$100 thousand or less. For details see Exhibits 5 through 7.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflects a reasonable distribution, given the low income levels in Puerto Rico and the USVI. For the examination period, 13 percent of loan originations were to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings across borrower income levels reflects acceptable distribution, given high housing costs and low borrower income levels in the assessment areas. For the examination period, 2.5 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to be the result of the significant gap between housing costs in the assessment areas relative to income levels, which generally precludes LMI borrowers from the housing market. Since the median housing price in Puerto Rico during the examination period was \$85 thousand, LMI families, whose income level averages \$10,114 or less, would generally be unable to finance the purchase of a home in this market. The gap

between housing costs and income is even greater in the USVI where the average median housing price is \$174 thousand and the income level of LMI families is \$25,600.

In Puerto Rico, the 1997 activity of all HMDA reporters supports the contention that LMI borrowers are generally precluded from the housing market. Of all home purchase loans and refinancings originated, only 1 percent were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes is excellent. Eighty-three percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$31,676, an amount that would typically meet the credit needs of smaller businesses. Of all small business loans, 64 percent of loans originated during the examination period were to businesses with gross annual revenues ("GAR") of \$1 million or less.

The percentage of the bank's small business loans to businesses with GAR of \$1 million or less may be higher than reported by the bank. Sixteen percent of the bank's small business loan originations did not indicate the revenue size of the borrower. According to management, these loans generally included cash collateral and character loans where the revenue size of the business is not considered when making a credit decision. Management noted that almost all borrowers in these categories had GAR of \$1 million or less. If these loan originations are included with reported small business loans to businesses with GAR of \$1 million or less, Banco Popular's share of lending to such businesses increases to 80 percent of total small business loans.

Community Development Lending

Banco Popular's community development lending performance was outstanding. During the examination period, community development loan commitments totaled \$55.7 million, of which \$45 million or 81 percent were new loan commitments originated since the prior examination of June 2, 1997. Total commitments at this examination are less than the \$96.5 million of activity at the prior examination; however, the earlier examination covered a 22-month period while this examination covered 12 months.

Community development lending in support of affordable housing initiatives totaled approximately \$35.1 million or 63 percent of total activity, and it provided for the construction of 2,385 housing units in the bank's assessment areas. As previously noted, affordable housing is a critical need in the bank's assessment areas. Lending related to economic development activity totaled \$16.4 million or 29 percent of total activity while community service lending totaled \$4.2 million or 8 percent of total activity.

Eighty-four percent of community development lending activity or \$46.7 million was in Puerto Rico. Since Regulation BB does not require an institution to make community development loans in all its assessment areas, a lack of community development lending in a particular assessment area does not detract from the rating of the bank as a whole or its performance in a particular assessment area.

For details see Exhibit 8.

Innovative and Flexible Lending Practices

The bank uses a number of innovative and/or flexible housing and small business loan products in serving assessment area credit needs. These products primarily include Farmers Home Administration (“FHA”) and Veterans Administration (“VA”) mortgages and Small Business Administration (“SBA”) loans. During the examination period, the bank originated 3,639 FHA, 11 VA and 298 loans under the SBA’s “Low-Doc” and Section 504 loan programs.

Since local markets vary, not all loan products are offered in both Puerto Rico and the USVI. For example, loans related to farm lending, such as Farmers Home Association (“FmHA”) and Rural Development Corporation loan programs, are not offered in the USVI because limited land availability has precluded commercial farming. Also, because there is no HUD-certified counselor in the USVI, reverse mortgages offered through the FHA are not available in the USVI. Innovative and/or flexible loan products specific to Puerto Rico and the USVI are discussed in detail on pages BB37 and BB115, respectively.

INVESTMENT TEST

The bank's record of meeting the needs of its assessment area through qualified investments is rated outstanding. Banco Popular had an excellent level of qualified community development investments and grants that exhibited strong responsiveness to credit and community development needs through investments in facilities and organizations supporting affordable housing, economic development and community services.

For details see Exhibit 9.

Dollar Amount of Qualified Investments

The level of qualified investments was excellent, totaling \$83.4 million at this examination. Total investments consisted of \$81.5 million in investments in various agencies engaged in community development activity and \$1.9 million in charitable grants and contributions to organizations supporting community development projects and programs. Of total qualified investments, virtually all were in Puerto Rico. In the USVI, investment opportunities were severely limited, and management's strategy focused on community development lending. Investments are not required in all assessment areas; therefore, a lack of qualified investments in a specific assessment area does not detract from the evaluation of the bank as a whole or its performance in specific assessment areas.

Innovative and Complex Qualified Investments

Most of the bank's investments were traditional investments in notes and bonds issued by governmental agencies engaged in qualified community development activity. The bank, however, was highly innovative in its efforts to support the affordable housing initiatives of the Puerto Rico Housing Bank and Finance Agency. In order to facilitate the agency's issuance of bonds for the current phase of its affordable housing program, the bank privately committed to originate \$90 million of Act 124 home purchase mortgage loans during the current phase. This is the first time private commitments were used by the agency to expedite its financing program. Because the bank extended a loan commitment rather than purchasing agency bonds, the \$90 million did not qualify as an investment.

Responsiveness of Qualified Investments to Credit and Community Development Needs

Banco Popular's investments demonstrate an excellent response to the most pressing credit and community development needs in the bank's assessment areas. Sixty-three percent, or \$52.7 million, of investments were directed to agencies engaged in affordable housing, a primary credit need in the bank's assessment areas. Approximately 35 percent or \$28.9 million of investments were directed toward economic development activity, and 2 percent or \$1.7 million were directed toward community services.

SERVICE TEST

Banco Popular's rating on the service test is outstanding, based on the bank's record of providing an excellent level of banking services in its assessment areas.

Accessibility of Delivery Systems

Banco Popular's delivery systems, including the branch network and alternative delivery systems such as automated teller machines ("ATMs"), telephone banking and computer banking, are accessible to essentially all portions of Banco Popular's assessment areas.

As of March 31, 1998, Banco Popular operated 202 retail branches in its Puerto Rico and USVI assessment areas. Ninety-seven percent or 195 branches were in Puerto Rico. Branch locations were well dispersed throughout the assessment areas and adequately reflect assessment area demographics. Twenty percent of all branches or 41 branches were located in LMI geographies, while 25 percent of all geographies in the bank's assessment areas are LMI and 22 percent of the population resides in LMI geographies.

For details see Exhibit 10.

In addition to the branch network, Banco Popular employs several alternative delivery systems to enhance the distribution of its services throughout its assessment areas:

ATMs

As of March 31, 1998, the bank operated 417 ATMs of which 249 were in Banco Popular branches and 168 were off-site in various supermarkets and office buildings. Of total ATMs, 407 or 98 percent were in Puerto Rico. All LMI branch locations were equipped with ATMs, and 35 or 21 percent of the off-site ATMs were located in LMI geographies. The total number of ATMs includes 80 new installations in Puerto Rico since the prior examination. Banco Popular is a member of multiple nationwide ATM networks.

Telephone Banking

Banco Popular offers telephone services that allow customers to obtain deposit and loan balance information as well as access to the bank's "Telepago" and "Teleprestamo" products. Telepago is an automated bill paying service allowing customers to make utility payments as well as loan and credit card payments. Teleprestamo is a loan application service where applications for various types of consumer credit are accepted. Credit officers staff the service and, on average, an applicant can expect a credit decision in 21 minutes. Although mortgage applications are not accepted through Teleprestamo, application forms can be requested. Telephone banking services are available to consumers and businesses.

Computer Banking

With free software provided by Banco Popular, customers can conduct bank transactions with their personal computers. They can obtain information about account balances, execute payments, and transfer funds. Customers may also download financial information to spreadsheets or financial programs, and communicate with the bank by e-mail. The bank also makes a version of this service available to businesses. Banco Popular also maintains an informational site on the Internet.

Changes in Branch Locations

Banco Popular's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. Since the prior examination, the bank opened 33 new branches and consolidated 14 branches. All opening and consolidation activity occurred in the Puerto Rico assessment areas. No branches were opened or closed in the USVI assessment areas.

Of the new branches, 25 were acquired from Roig Commercial Bank. The other eight offices were primarily new in-store branches constructed in local supermarkets. The consolidated branches consist of eight former Roig branches and six Banco Popular express branches consolidated into existing Banco Popular facilities expanded to accommodate additional customer activity. All consolidations occurred within a mile or less of the receptor branch. Two consolidations occurred within LMI geographies but did not appear to have had a negative impact on the delivery of services to the community.

Branch consolidations were conducted in accordance with Banco Popular's written branch-closing policy, which complies with the Joint Interagency Policy Statement Regarding Branch Closings. The bank provided timely advance notification to affected customers and regulatory authorities.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Banco Popular's business hours and services did not vary in a way that inconvenienced certain portions of its assessment areas, particularly LMI geographies and LMI individuals. Regular banking hours were 8 a.m. to 4 p.m. Monday through Friday and extended hours were available at approximately 50 percent of the bank's branches. Extended hours include Thursday and/or Friday evenings, Saturdays and, in Puerto Rico, Sundays.

The bank offers a full range of deposit and credit services at all branches. Credit application forms are accessible at all branch locations. Mortgage specialists were available at one or more locations in each of the MSAs in Puerto Rico, St. Thomas and St. Croix.

Community Development Services

Banco Popular provided a high level of community development services throughout its assessment areas including seminars, in-kind contributions, technical assistance to a variety of

community development organizations, and special products and services. Most activity was concentrated in the Puerto Rico assessment areas.

Seminars

During the examination period, Banco Popular sponsored or participated in approximately 42 seminars throughout its assessment areas. Seminars on topics such as “Business Financing for Women,” “Small Business Financing,” “Technical and Financial Requirements for Construction Loans,” and “Home Acquisition” were sometimes presented in conjunction with local organizations such as Neighborhood Housing Services (“NHS”) of San Juan, the Puerto Rico Housing and Finance Agency and the University of the Virgin Islands. In Puerto Rico, ten of the bank’s presentations were directed toward community development groups, providing information and assistance in developing new programs, particularly in the area of affordable housing.

In-Kind Contributions

A variety of Banco Popular’s in-kind activities benefited local community development organizations. For example, Banco Popular donated classroom space, software and instructors for computer training courses for the Funacion de Hogares para Trabajadores, a community organization providing job training. The bank also provided recently renovated office space to the NHS of San Juan. In addition, the bank provides office and organizational support to the San Juan Habitat for Humanity. Banco Popular regularly donates the use of its facilities for various meetings, conferences, and fund-raisers conducted by local nonprofit community development organizations.

Technical Assistance

Bank management was proactive in providing technical assistance for the support of community development and affordable housing activities. Management and staff served as directors, advisors or committee members for 91 community development organizations throughout Puerto Rico and the USVI. Some of the organizations include the Puerto Rico Community Development Consortium, which works to strengthen nonprofit organizations and develop community development corporations; La Fondita de Jesus, an organization providing services to the homeless; NHS of San Juan and Ponce; Habitat for Humanity; the Virgin Island Housing Authority, and the University of the Virgin Islands Small Business Development Center.

Special Products and Services

Banco Popular’s community development products and services include low-cost check cashing for non-customers and free in-branch bill payment services whereby the bank accepts payments on behalf of over 50 companies and agencies such as telephone, electric and cable. In addition, the bank offers secured credit cards that enable applicants who do not otherwise qualify an opportunity to establish retail credit. Through its ATM network, Banco Popular has initiated a

unique funds transfer service between customers in Puerto Rico and residents in the Dominican Republic, at fees less than traditional wire transfer charges.

In order to provide financial services to those without banking relationships, Banco Popular provides Access 24, a service whereby employees of various businesses participating in a direct deposit system through Banco Popular can access some banking services without having an account relationship. Employees do not receive payroll checks, but can access their wages and all of the bank's electronic services, including telephone bill payment, without charge. In addition, Access 24 customers can purchase bank checks and money orders at a reduced fee and make unlimited ATM transactions for a \$2 monthly service charge.

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, the Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

EXHIBIT 1

Total Loan Originations

April 1, 1997 - March 31, 1998

Loan Type	#	%	\$('000s)	%
HMDA Home Purchase	4,818	22.6	\$ 415,179	55.5
HMDA Refinance	2,476	11.6	179,612	24.0
HMDA Home Improvement	14,008	65.8	152,928	20.5
Total HMDA	21,302	51.0	\$ 747,719	32.5
Total Small Business	20,210	48.4	1,537,868	66.8
Total Small Farm	230	.6	16,764	.7
TOTAL LOANS	41,742	100.0	\$2,302,351	100.0

EXHIBIT 2

TOTAL DEMAND-ADJUSTED ANALYSIS FOR HOME IMPROVEMENT LOANS

AND

EXHIBIT 3

TOTAL DEMAND-ADJUSTED ANALYSIS HOME PURCHASE AND REFINANCE LOANS

EXHIBIT 4

TOTAL DISTRIBUTION OF SMALL BUSINESS LOANS ACROSS CENSUS TRACTS

AND

EXHIBIT 5

TOTAL DISTRIBUTION OF HOME IMPROVEMENT LOANS ACROSS BORROWER INCOME LEVELS

AND

EXHIBIT 6

TOTAL DISTRIBUTION OF HOME PURCHASE AND REFINANCE LOANS ACROSS BORROWER INCOME LEVELS

INSERT EXCEL **EXHIBIT 7**

**TOTAL DISTRIBUTION OF SMALL BUSINESS LOANS BY SIZE OF LOAN
AND REVENUE SIZE OF BORROWER**

EXHIBIT 8

Total Community Development Lending Activity

Assessment Area	Commitment ('000s)	%	Outstanding ('000s)	%	New Money ('000s)	%	Housing Units
Puerto Rico	\$46,695	84%	\$38,611	82%	\$40,796	90%	2,213
United States Virgin Islands	\$9,038	16%	\$8,684	18%	\$4,350	10%	172
TOTALS	\$55,733	100%	\$47,295	100%	\$45,146	100%	2,385
Affordable Housing	\$35,165	63%	\$33,664	71%	\$29,439	65%	2,385
Community Service	\$4,166	8%	\$1,972	4%	\$4,034	9%	0
Economic Development	\$16,402	29%	\$11,659	25%	\$11,673	26%	0

EXHIBIT 9

Total Qualified Investment Activity

Assessment Area	Amount (\$'000s)	%
Puerto Rico	\$83,436	99.9%
U.S. Virgin Islands	\$ 10	1%
Total Qualified Investments	\$83,446	100%
Affordable Housing	\$52,760	63%
Community Service	\$ 1,755	2%
Economic Development	\$28,931	35%
TOTAL ACTIVITY	\$83,446	100%

EXHIBIT 10

Banco Popular Branch Locations

(As of March 31, 1998)

Location	# of Branches	# in LMI Areas
PMSA 7440 (San Juan, PR)	115	30
MSA 6360 (Ponce, PR)	15	4
PMSA 1310 (Caguas, PR)	11	2
MSA 4840 (Mayaguez, PR)	12	1
PMSA 0470 (Arecibo, PR)	7	1
MSA 0060 (Aguadilla, PR)	6	1
Puerto Rico Non-MSAs (TOTAL)	29	1
Puerto Rico Branches	195	40
St. Thomas, U.S.V.I.	5	0
St. Croix, U.S.V.I.	2	1
USVI Branches	7	1
TOTAL	202	41

COMMONWEALTH OF PUERTO RICO

CRA Rating for Puerto Rico: Outstanding
The Lending Test is rated: Outstanding
The Investment Test is rated: Outstanding
The Service Test is rated: Outstanding

The bank's performance in Puerto Rico is rated outstanding, based on the following summary conclusions:

LENDING TEST

- Banco Popular's lending activity shows an excellent responsiveness to the credit needs in its assessment areas. Based on 1997 aggregate data, the bank and its affiliates originated 70 percent of all home improvement loans and 71.5 percent of all small business loans in Puerto Rico.
- The overall geographic distribution of loans reflects excellent loan penetration throughout the assessment areas. Some weaknesses in the geographic distribution of home purchase or home improvement loans were noted in certain MSAs and municipalities. For details see page BB34.
- There was an acceptable distribution of loans among borrowers of different income levels and an excellent distribution of loans to businesses of different sizes.
- The level of community development lending, was outstanding totaling \$46.7 million.

INVESTMENT TEST

- The level of qualified investments was outstanding totaling \$83.4 million.

SERVICE TEST

- Banco Popular's delivery systems were accessible to essentially all portions of the bank's assessment areas.
- Changes in branch locations did not adversely affect the accessibility of the bank's delivery systems, and the bank's business hours and services did not vary in a way that inconvenienced certain portions of the assessment areas.

- Banco Popular provided a high level of community development services through seminars, in-kind donations technical assistance, and special products and services.

DESCRIPTION OF BANCO POPULAR'S OPERATIONS IN PUERTO RICO

Banco Popular, headquartered in San Juan, Puerto Rico, is a full-service commercial bank focusing on retail financial services and commercial services to small- and middle-market businesses. The bank, organized under the banking laws of the Commonwealth of Puerto Rico, is a wholly owned subsidiary of Popular, Inc. (previously BanPonce Corporation), San Juan, Puerto Rico. Subsidiaries of Banco Popular include Popular Finance Inc., a small loan and secondary mortgage company; Popular Leasing, Inc., a finance leasing, equipment leasing, and daily motor and equipment rental company; and Popular Mortgage, Inc., a mortgage origination and secondary marketing subsidiary. As of March 31, 1998, the bank had total assets of \$16.7 billion, net loans and leases of \$9.3 billion, and total deposits of \$10.7 billion. Approximately \$14.9 billion or 89 percent of the bank's assets were in Puerto Rico. The holding company had total consolidated assets of approximately \$20 billion, as of March 31, 1998.

On July 1, 1997, Banco Popular acquired and merged Roig Commercial Bank ("Roig"), of Humaco, Puerto Rico. At the time of acquisition, Roig operated 25 retail branches and had total assets of \$790 million and total deposits of \$582 million.

As of the examination date, August 3, 1998, Banco Popular operated the largest retail branch network in Puerto Rico with 195 retail branches and 407 automated teller machines ("ATMs"). The retail branches in Puerto Rico account for approximately \$8.8 billion in deposits, or about 82 percent of the bank's total deposits. Of the total branches in Puerto Rico, 115 or 59 percent were in PMSA 7440 (San Juan-Bayamon, PR). These branches account for \$6.6 billion or 75 percent of the bank's total deposits in Puerto Rico. Banco Popular affiliates maintain loan origination offices in Puerto Rico as well. Popular Mortgage, Inc. had four offices all located in the San Juan-Bayamon PMSA, and Popular Finance Inc. had 47 offices located throughout the island.

Banco Popular is the largest commercial bank in Puerto Rico. Primary competitors include Banco Santander Puerto Rico, Banco Bilbao Viscaya, Citibank, Oriental Bank and Trust, and Westernbank.

Banco Popular's previous CRA examination was conducted June 2, 1997, at which time the bank's activity in Puerto Rico was rated outstanding. There are no financial or legal factors that would impede Banco Popular in fulfilling its responsibilities under the CRA.

DESCRIPTION OF ASSESSMENT AREAS

The bank has 11 assessment areas in Puerto Rico including three Primary Statistical Areas ("PMSAs"), three Metropolitan Statistical Areas ("MSAs") and all the non-MSA areas of Puerto Rico. The assessment areas consist of the following:

- PMSA 7440 (San Juan-Bayamon, PR)
- MSA 6360 (Ponce, PR)
- MSA 4840 (Mayaguez, PR)
- MSA 0060 (Aguadilla, PR)
- PMSA 1310 (Caguas, PR)
- PMSA 0470 (Arecibo, PR)
- Non-MSA 1 consisting of the contiguous non-MSA municipalities of Adjuntas, Aibonito, Arroyo, Barranquitas, Ciales, Coamo, Guayama, Isabela, Jayuya, Lares, Las Marias, Maunabo, Maricao, Orocovis, Patillas, Quebradillas, Salinas, San Sebastian, Santa Isabel, and Utuado.
- Non-MSA 2 consisting of the contiguous non-MSA municipalities of Guanica and Lajas.
- Non-MSA 3 consisting of the non-MSA municipality of Rincon.
- Non-MSA 4 consisting of the non-MSA island of Culebra.
- Non-MSA 5 consisting of the non-MSA island of Vieques.

The following demographic and economic information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the Puerto Rico Department of Economic Development and Commerce, Estudios Technicos, Inc., and the Banco Popular Strategic Planning Division. For details see Exhibit 11.

Demographic Characteristics

Banco Popular's combined assessment areas encompass the entire island of Puerto Rico. Puerto Rico has 78 municipalities, 53 of which are included in the island's six PMSAs and MSAs. The remaining 25 municipalities, which are generally more rural in nature, are not part of any PMSA or MSA. According to the 1990 Census, the total population of Puerto Rico is approximately 3.5 million. The highest concentration of population is in the San Juan-Bayamon PMSA where 52 percent of the population (1.8 million people) resides. The population is extremely dense. There are 1,029 inhabitants per square mile in Puerto Rico, compared with 69 in the U.S.

Income Characteristics

Income levels in Puerto Rico are low. According to the 1990 Census, approximately 59 percent of the population lives below the poverty level. In 1997, HUD estimated median family income levels ranged from a high of \$16,100 in PMSA 7440 (San Juan-Bayamon, PR) to a low of

\$10,600 in the non-MSA areas. By comparison, in 1997, the lowest HUD estimated median family income in the U.S. was \$24,800 in MSA 4880 (McAllen-Edinburg-Mission, TX), located in southeastern Texas near the Mexican border.

Of the 798 populated census tracts and block numbering areas (“BNAs”) used for analysis, 20 or 3 percent are low-income, 178 or 22 percent are moderate-income, 389 or 49 percent are middle-income, and 211 or 26 percent are upper-income. Of the low- and moderate-income (“LMI”) census tracts or BNAs (hereinafter referred to as “geographies”), most are located in the municipality of San Juan. Approximately 22 percent of Puerto Rico’s total population or 789 thousand persons reside in LMI geographies.

Housing Characteristics

The level of owner-occupied housing units in Puerto Rico is high. According to the 1990 Census, of the 1,054,924 occupied housing units, 72 percent or about 760 thousand units are owner-occupied compared with an owner-occupancy rate in the U. S. of 64 percent. The level of owner-occupancy in Puerto Rico is generally consistent with the island’s overall level in moderate-, middle- and upper-income geographies. In low-income geographies, however, the owner-occupancy rate is only 21 percent.

Of the owner-occupied housing units in Puerto Rico, 153,716 or 20 percent are located in LMI geographies. Less than 1 percent or 4,775 owner-occupied housing units are in low-income geographies, while 148,941 or 19.6 percent of such units are in moderate-income geographies.

Owner-occupied housing units are concentrated in PMSA 7440 (San Juan-Bayamon, PR) where 52 percent of owner-occupied housing units and 73 percent of owner-occupied housing units in LMI geographies are located.

Single-family units, which have long been favored in the housing market, dominate owner-occupied housing. According to a quarterly survey of new construction conducted by Estudios Technicos, Inc. for the Puerto Rico Bankers Association, of the newly constructed housing units sold in 1997, 71 percent were single-family units, as opposed to townhouses or high-rise construction.

As a result of the high cost of land, infrastructure, and construction, housing costs are high in Puerto Rico, especially in relation to income levels. Examiner analysis of a sample of 4,019 home sales during the examination period showed that the median sale price of a single-family home in Puerto Rico was \$85 thousand. The median price varied in relation to location. In the more rural non-MSA municipalities, the average median sale price was \$59,782 while in the metropolitan San Juan-Bayamon PMSA the average median was \$87,831.

A comparison of these costs to income levels shows that owner-occupied housing is most often beyond the means of LMI families and suggests a pressing need for affordable housing programs. The government of Puerto Rico provides public rental housing to approximately 250 thousand persons throughout Puerto Rico. The government has also taken steps to assist in providing affordable owner-occupied housing. Through the Puerto Rico Housing Bank and Finance Agency

("Banco de la Vivienda"), the government administers Act 124, 1993 legislation creating a program to stimulate the construction of affordable housing with down payment and mortgage interest rate subsidies for qualified LMI home buyers. Affordable housing and qualified LMI home buyers are defined in related legislation that is periodically updated. Through November 1997, the program provided approximately 6,300 units of affordable housing, and commitments have been made for an additional 4,600 under the current program phase, which began in December 1997.

Community contacts conducted during this examination confirmed that owner-occupied housing is generally beyond the reach of LMI families. They noted that home improvements, such as the construction of additional rooms to accommodate new households, or progressive construction where the owner builds a home one room at a time, are frequent alternatives for LMI families, particularly those entering the housing market. Such activity indicates a strong demand for home improvement loans in the Puerto Rico market.

Also, the 1990 Census and a study conducted for the Puerto Rico Bankers Association, *Demand for Housing in Puerto Rico 1994-1998*, by Estudios Technicos, Inc., indicates a high level of inadequate housing in Puerto Rico because of deterioration, inadequate original construction and overcrowding. The study estimates that approximately 88,500 housing units throughout Puerto Rico need rehabilitation, indicating a further demand for home improvement loans. This situation was also confirmed by community contacts made during the examination. The area with the greatest need is the San Juan-Bayamon PMSA where it is estimated 37,500 housing units are in need of rehabilitation.

Labor, Employment and Economic Characteristics

Primary employment sectors include manufacturing, construction, tourism, service and government. Important manufacturing industries include pharmaceuticals, electronics, textiles, petrochemical and processed foods. The high level of manufacturing activity is directly linked to the enactment of Section 936 of the U.S. Internal Revenue Code, which provided tax incentives to U.S. corporations that established operations in Puerto Rico. As a result, many manufacturers, most notably pharmaceutical firms, invested heavily in Puerto Rico. Tax code changes in May 1996 repealed Section 936 and provided for a ten-year phase-out period. The impact of the Section 936 changes coupled with an increase in the hourly wage and corporate reorganizations resulted in the loss of approximately 8,500 manufacturing jobs in 1997. Most notable was the December 1997 closing of the Nextlevels Systems P. R., Inc. plant in Barceloneta, which alone accounted for 1,100 lost jobs.

In order to help compensate for the decline in manufacturing, the Puerto Rico Legislature enacted Law 135, an industrial incentive law designed to attract new economic investment. The 1998 legislation allows a reduction in the maximum tax rate for businesses, a 200 percent deduction for job training, and research and development costs, and elimination of a tax on dividends repatriated to the parent company.

In addition to a decline in manufacturing jobs, the number of government jobs declined during 1997 but still accounts for approximately 20 percent of the workforce.

The construction and service sectors, particularly tourism-related services, experienced job growth. Construction employment increased 16 percent between 1997 and 1998 as a result of a rise in construction of infrastructure financed by the government. To help alleviate transportation problems that have long plagued Puerto Rico, the government is constructing Tren Urbano (Urban Train). The light rail system will connect the more outlying municipalities of the San Juan-Bayamon PMSA with the municipality of San Juan, where employment opportunities are concentrated. The automobile has long been the only means of reaching job locations, and for those without a car, the lack of effective public transportation meant limited access to jobs, education and services. The first phase of the rail project is scheduled to open for service in 2001.

Unemployment is high in Puerto Rico. In 1997, the annual unemployment rate was 13.5 percent, compared with approximately 5 percent in the U.S. Through the first quarter of 1998, unemployment rates ranged from a high of 14.5 percent in January to a low of 13.3 percent in March. The highest unemployment levels were in PMSA 0060 (Aguadilla, PR) and MSA 6360 (Ponce, PR) where unemployment reached 18.9 percent and 17.3 percent, respectively. The lowest level of unemployment was in PMSA 7440 (San Juan-Bayamon, PR) where the unemployment rate was 10.7 percent. Such data suggests that loans to assist in the creation or expansion of businesses and jobs would greatly benefit the overall economy.

SCOPE OF EXAMINATION

Banco Popular's assessment areas represent all of Puerto Rico. A full-scope analysis of the bank's performance was conducted using the Interagency Procedures and Guidelines for Large Retail Institutions in the following assessment areas, which heavily influenced the overall rating: PMSA 7440 (San Juan-Bayamon, PR), MSA 6360 (Ponce, PR), MSA 4840 (Mayaguez, PR) and MSA 0060 (Aguadilla, PR). Collectively, these assessments areas represent 72 percent of the population, 86 percent of the population living in LMI geographies, 85 percent of deposits, and 76 percent of branches in Banco Popular's Puerto Rico assessment areas. At this examination, the areas also represent 75 percent of mortgage and home improvement loan activity and 76 percent of small business and small farm loan activity.

An analysis using portions of the interagency procedures for the lending, investment and service tests was conducted for PMSA 1310 (Caguas, PR), PMSA 0470 (Arecibo, PR) and all the non-MSA assessment areas in Puerto Rico to determine Banco Popular's general level of performance in these assessment areas.

Overall conclusions regarding the bank's CRA performance in Puerto Rico were based primarily on performance in the San Juan-Bayamon PMSA. This PMSA contains 52 percent of the total population, 73 percent of the owner-occupied housing units in LMI geographies, 59 percent of the bank's retail branches, and 75 percent of the bank's deposits within Puerto Rico.

The evaluation of Banco Popular's CRA performance covered the period April 1, 1997, through March 31, 1998. Loan products evaluated included home improvement and home purchase loans and refinancings of such loans (which were evaluated together), and small business and small farm loans (also evaluated together). Other loans qualifying as community development loans were

also evaluated. Community development loan originations covered the period June 1, 1997 through March 31, 1998. In addition, bank investments, grants and services qualifying as community development were included in the evaluation.

Mortgage and home improvement loans, as reported under Regulation C - Home Mortgage Disclosure Act ("HMDA") and originated by Banco Popular and its affiliates Popular Mortgage, Inc. and Popular Finance, Inc., were included in the evaluation. Of the total home purchase loans and refinancings used in the analysis, Popular Mortgage reported 3,736 or 52 percent, Banco Popular reported 3,183 or 44 percent, and Popular Finance reported 378 or 4 percent. Banco Popular reported 98 percent of all home improvement loans used for analysis. Neither Banco Popular nor its affiliates reported multifamily HMDA-related loans during the examination period as this type of housing is not common in Puerto Rico. In 1997, all HMDA lenders in Puerto Rico collectively reported only two multifamily loans.

Home improvement loans represent 66 percent of all HMDA-related loan activity during the examination period. Because of the volume, the fact that home improvement loans are an important, documented credit need in the assessment areas, and the limited availability of affordable housing opportunities, more weight was placed on home improvement activity than on home purchase loans and refinancings.

For evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 census data. Determination of the distribution of loans to borrowers of different income levels was based on 1997 HUD estimated median family income data.

In evaluating the geographic distribution of the bank's loans, a demand-adjusted analysis was performed for HMDA-related loans, comparing the proportion of loans per thousand owner-occupied housing units in LMI and non-LMI geographies. As a result of the absence of information regarding the number of small business establishments located in LMI and non-LMI geographies, a demand-adjusted analysis was not conducted for small business loans.

The bank's HMDA-related and small business loan performance in Puerto Rico was compared with the aggregate of all other lenders reporting real estate loans under HMDA and small business loans under the CRA in Puerto Rico. This data is reported annually, and the most recent year for which information was available was 1997. Based on 1997 aggregate data, there were a total of 62 HMDA reporters and 14 small business reporters in Puerto Rico.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PUERTO RICO

LENDING TEST

Banco Popular's performance under the lending test is rated outstanding.

Lending Activity

Banco Popular's lending activity reflects an excellent response to assessment area credit needs. Credit needs were addressed by offering and originating a significant volume of lending to include home improvement, home purchase and refinance, and small business loans within the bank's assessment areas.

During the examination period, 41,412 loans totaling \$2.26 billion were originated, consisting of 21,122 home purchase, refinance and home improvement loans reported under HMDA, 20,060 small business loans and 230 small farm loans. Of the HMDA-related loans originated, 13,954 loans or 66 percent were home improvement loans, representing a substantial commitment to meeting a documented credit need in the bank's assessment areas. For details see Exhibit 12.

Since the prior examination (June 2, 1997), Banco Popular exhibited a significant increase (42 percent) in HMDA-related and small business lending on an annualized basis. Increases are attributed in part to the Roig Commercial Bank. Also, some increases in small business lending are attributable to an increased number of loans being reported based on the regulatory definition of small business loans under the revised Regulation.

Small farm lending decreased 55 percent, on an annualized basis, since the prior examination. Management believes this decline is a function of an expansion in farm size that in turn requires higher credit needs that no longer meet the definition of small farm loans. Based on 1997 aggregate data, however, Banco Popular continued to be the primary provider of small farm loans in Puerto Rico.

In 1997, Banco Popular and its affiliates originated approximately 38 percent of all HMDA reportable loans in Puerto Rico. With 17 percent of home purchase lending and refinancings, Banco Popular and its affiliates were not leaders in originating such reported loans, but they were the primary providers of home improvement loans, originating 70 percent of all such loans. Also, Banco Popular is the dominant small business lender in Puerto Rico. In 1997, the bank originated 71.5 percent of all small business loans reported in Puerto Rico.

Most of the bank and its affiliates lending activity occurred in PMSA 7440 (San Juan-Bayamon, PR). Fifty-nine percent of HMDA-related and small business and small farm loans, representing 12,554 and 11,936 loans, respectively, were originated in the San Juan-Bayamon PMSA. This PMSA contains 52 percent of the population and 59 percent of Banco Popular's branches in the Puerto Rico assessment areas.

Geographic Distribution of Lending

Overall, the analysis demonstrates excellent loan activity among the low-, moderate-, middle-, and upper-income geographies in the bank's assessment areas. In 1997, the bank either outperformed the aggregate of other lenders, or its performance was consistent with the aggregate. For details see Exhibits 17 through 19.

Home Improvement Loans

The overall geographic distribution of home improvement loans reflects excellent demand-adjusted distribution. On a demand-adjusted basis, the level of loan originations in LMI geographies was 1.2 times greater than in non-LMI geographies. Performance was strong in PMSA 7440 (San Juan-Bayamon, PR), where 55 percent of home improvement loans were originated. Weak loan penetration was noted, however, in the municipalities of Fajardo, Rio Grande and Carolina. Weaknesses in Rio Grande and Carolina are attributed to limited LMI lending opportunities. Good performance was exhibited in MSA 4840 (Mayaguez, PR). Acceptable loan penetration was noted in MSA 0060 (Aguadilla, PR); based on the fact that the bank and its affiliates continue to be the primary home improvement lenders in all portions of the MSA. Weak loan penetration was noted in MSA 6360 (Ponce, PR), particularly in the municipality of Ponce where there is the greatest opportunity for lending in LMI geographies.

For 1997, Banco Popular's home improvement loan performance was comparable to the aggregate performance of all other HMDA reporters in Puerto Rico. On a demand-adjusted basis, both Banco Popular and the aggregate reported activity was equivalent in LMI and non-LMI geographies.

Home Purchase Loans and Refinancings

Overall, the geographic distribution of home purchase loans and refinancings reflects good penetration in the bank's assessment areas. On a demand-adjusted basis, the level of loan originations in LMI geographies was generally equivalent to originations in non-LMI geographies. Overall, good performance was noted in MSA 6360 (Ponce, PR) where loan originations in LMI geographies were 1.5 times greater than in non-LMI geographies; however, weak loan penetration was noted in the municipality of Ponce. Good performance was also exhibited in PMSA 7440 (San Juan-Bayamon, PR) where loans in non-LMI geographies slightly exceeded those in LMI geographies. Weak loan penetration was noted, however, in the municipalities of Yabucoa, Vega Baja, Toa Baja and Aguas Buenas. Approximately 68 percent of all the bank's home purchase and refinance activity was originated in the San Juan-Bayamon PMSA. Weakness was also noted in MSA 4840 (Mayaguez, PR) and MSA 0060 (Aguadilla, PR), but the bank's performance was impacted by limited lending opportunities in the LMI geographies of the Mayaguez MSA and a very weak housing market in Aguadilla.

Banco Popular outperformed the aggregate of all other HMDA reporters with its demand-adjusted performance in 1997. While Banco Popular had 1.1 times more loan originations in non-LMI geographies than LMI geographies, the aggregate had 1.7 times more originations in non-LMI geographies.

Small Business Loans

The overall geographic distribution of small business loans reflects excellent penetration throughout all assessment areas. The bank originated 20,060 small business loans that were well distributed throughout Puerto Rico. Fifty-nine percent of all small business loans were originated in PMSA 7440 (San Juan-Bayamon, PR), which contains 59 percent of the bank's branches and 52 percent of Puerto Rico's total population. Small business lending in each of the bank's other assessment areas was comparable with the distribution of the bank's branches and population within each assessment area.

During the examination period, approximately 18 percent of the bank's small business loans were originated in LMI geographies. This is an improvement since the prior examination (June 2, 1997), when 15 percent of loans were originated in LMI geographies. In 1997, the aggregate of all other small business lenders originated 9 percent of their loans in LMI geographies.

Aggregate data for Puerto Rico shows that in 1997 Banco Popular originated 71 percent of all small business loans and 74 percent of all small business loans in LMI geographies.

In addition to small business loans, the bank originated 230 small farm loans in Puerto Rico. These loans were primarily originated in PMSA 7440 (San Juan-Bayamon, PR), MSA 0470 (Arecibo, PR), and Non-MSA 1.

Borrower Characteristics

Banco Popular's distribution of home improvement and home purchase and refinance loans to borrowers reflects an acceptable penetration among borrowers of different income levels, given housing costs and income levels as discussed in the description of the Puerto Rico assessment areas on page BB29. The level of small business lending showed an excellent distribution of loans to small businesses, with most loans originated in amounts of \$100 thousand or less. For details see Exhibits 20 through 22.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflects an acceptable distribution, given the low income levels in Puerto Rico, as discussed in the description of the Puerto Rico assessment areas. For the examination period, 13 percent of loan originations were to LMI borrowers.

A review of the 1997 activity of all HMDA reporters indicates that of all home improvement originations in Puerto Rico, 16 percent were to LMI borrowers. Of Banco Popular's home improvement loans, 14 percent were to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings across borrower income levels reflects an acceptable distribution, given high housing costs and low income levels in the assessment

areas. For the examination period, 2 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to result from the significant gap between housing costs in the assessment areas relative to borrower income levels, which generally precludes LMI borrowers from the housing market. As noted in the description of the Puerto Rico assessment areas, the median housing price in Puerto Rico during the examination period was \$85 thousand. LMI families, whose annual income level averages \$10,114 or less, would generally be unable to finance the purchase of a home in this market.

The 1997 activity of all HMDA reporters supports the contention that LMI borrowers are generally precluded from the mortgage market. Of all home purchase loans and refinancings originated in Puerto Rico, only 1 percent were to LMI borrowers. Of Banco Popular's loans, 2.5 percent were to LMI borrowers.

Lending to Small Businesses

In the Puerto Rico assessment areas, the bank's record of lending to businesses of different sizes is excellent. Eighty-three percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$31,640, an amount that would typically meet the credit needs of smaller businesses.

Of all small business loans in the Puerto Rico assessment areas, 64 percent of loans originated during the examination period were to businesses with gross annual revenues ("GAR") of \$1 million or less. The average loan size was \$54,678.

Banco Popular's overall 1997 performance was excellent when compared with all other small business lenders in Puerto Rico. Of Banco Popular's reported business loans, 85 percent of such loan originations were for amounts of \$100 thousand or less. Of the aggregate of all other lenders' reported small business loans, 76 percent were such loan originations. Regarding loans to businesses with GAR of \$1 million or less, Banco Popular reported 64 percent of small business loan originations to such businesses, while the aggregate of all other lenders reported originating 41.5 percent of such loans.

The percentage of the bank's small business loans to businesses with GAR of \$1 million or less may be higher than reported by the bank. Sixteen percent of the bank's small business loan originations did not indicate the revenue size of the borrower. According to management, these loans generally included cash collateral and character loans where the revenue size of the business is not considered when making a credit decision. Management noted that almost all borrowers in these categories had GAR of \$1 million or less. If these loan originations are included with reported small business loans to businesses with GAR of \$1 million or less, Banco Popular's share of lending to such businesses increases to 80 percent of total small business loans.

Community Development Lending

Banco Popular's community development lending performance was outstanding. During the examination period, community development loan commitments totaled \$46.7 million in Puerto

Rico, of which \$40.8 million or 87 percent were commitments originated since the prior examination.

Community development lending in support of affordable housing initiatives totaled \$30.8 million or 66 percent of total activity and provided for the construction of 2,213 housing units in the bank's assessment areas. As previously noted, affordable housing was identified as the most critical credit needs in the bank's assessment areas. Lending related to economic development activity totaled \$11.7 million or 25 percent of total activity while community service lending totaled \$4.2 million or 9 percent of total activity.

Most community development lending was concentrated in PMSA 7440 (San Juan-Bayamon, PR) where commitments totaled approximately \$31.8 million or 68 percent of total activity. Since Regulation BB does not require an institution to make community development loans in all its assessment areas, a lack of community development lending in a particular assessment area does not detract from the rating of the bank as a whole or its performance in a particular assessment area.

For details see Exhibit 23.

Innovative and Flexible Lending Practices

Banco Popular uses innovative and/or flexible lending practices to meet the needs of LMI individuals, small businesses and small farms. The bank offers the following innovative and/or flexible lending products throughout its Puerto Rico assessment areas:

Farmers Home Administration ("FHA")

The bank is active in offering two FHA loan programs, the 203(b) Program, which offers flexible lending standards, and the Reverse Mortgage Loan Program targeted to borrowers aged 62 or older. The 203(b) Program allows higher debt-to-income ratios and lower down payments than conventional mortgages for the purchase or refinancing of one- to four-family homes or condominiums. The Reverse Mortgage Loan Program allows senior citizens to use the equity in their homes as a source of income. During the examination period, 3,638 FHA loans were originated for \$262 million.

Included in total FHA loans were 520 mortgage loans originated under the 203(b) Program in conjunction with the Commonwealth's Act 124 Affordable Housing Program, totaling approximately \$30 million. Also included were 49 reverse mortgage loans totaling approximately \$5 million.

Veterans Administration ("VA")

Targeted to veterans, reservists and active military personnel, VA mortgage loans can be used to acquire or refinance owner-occupied one- to four-family homes. Underwriting standards are more flexible than conventional loans in terms of debt-to-income ratios, and no down payment is required. During the examination period, 109 VA loans were originated for \$11 million.

Farmers Home Association (“FmHA”)

This mortgage loan product is targeted to farmers who are purchasing residential housing. Underwriting and down payment standards are more flexible than conventional mortgage products. During the examination period, 59 loans were originated for \$4 million.

Hardware Financing Program

This innovative program allows borrowers to finance home improvements with Banco Popular through local hardware stores. Applicants apply through participating stores for loan amounts ranging from \$2 thousand to \$25 thousand. The product not only promotes home improvement for those who might not otherwise apply for a loan, but also supports neighborhood businesses throughout Puerto Rico. At the time of the examination, 229 hardware stores participated in the program. During the examination period, 225 loans were originated for \$1 million.

Rural Development Corporation (“RDC”)

Banco Popular originates RDC-guaranteed small farm loans. These crop and livestock loans are offered in municipalities that qualify as rural under RDC guidelines. Underwriting standards are tailored to meet the seasonal nature of the farming business. During the examination period, two loans were originated for \$500 thousand.

Small Business Administration (“SBA”)

The bank offers two flexible SBA loan programs: the Low Doc Program, designed for loans in amounts of \$100 thousand or less, and the Section 504 Program, designed to satisfy long-term financing needs of small businesses that are generally unable to obtain standard bank financing. During the examination period, 291 loans were originated for \$30 million. Of total loans originated, 265 or 91 percent were under the Low Doc Program.

Economic Development Bank Guaranteed Loans

Banco Popular offers small business loans guaranteed by the Economic Development Bank through a program for small businesses and an initiative targeted to women-owned small businesses. During the examination period, three loans were originated for \$348 thousand.

Volunteer Corps Guaranteed Loans

The Volunteer Corps, an organization that offers training and technical support to very small businesses, guarantees this product. The maximum loan amount available through this program is \$10 thousand. During the examination period, two loans were originated for \$16 thousand.

INVESTMENT TEST

Banco Popular had an excellent level of qualified community development investments and grants that exhibited strong responsiveness to community development needs through investments in facilities and organizations supporting affordable housing, economic development, and community services. For details see Exhibit 28.

Dollar Amount of Qualified Investments

The bank's level of qualified investments was strong, totaling \$83.4 million at this examination. Total investments consisted of \$81.5 million in investments in various agencies engaged in community development activities and \$1.9 million in charitable grants and contributions made to organizations supporting community development projects and programs. Of total investments, \$63.1 million or 76 percent benefits projects and programs on an island wide basis. Since there is no requirement that qualified investments be made in all assessment areas, the lack of qualified investments in a specific assessment area does not detract from the bank's overall performance.

Innovative and Complex Qualified Investments

Most of the bank's investments were traditional investments in notes and bonds issued by government agencies engaged in qualified community development activity. Banco Popular, however, was highly innovative in its efforts to support the affordable housing initiatives of the Puerto Rico Housing Bank and Finance Agency. To facilitate the agency's issuance of bonds for the current phase of the Act 124 Affordable Housing Program, the bank privately committed to originate \$90 million of Act 124 loans during the current phase. This is the first time private commitments were used by the agency to expedite its financing program. Because the bank extended a loan commitment rather than purchasing agency bonds, the \$90 million did not qualify as an investment.

Responsiveness of Qualified Investments to Community Development Needs

Banco Popular's investments demonstrate an excellent response to the most pressing community development needs in the bank's assessment areas. Sixty-three percent of investments, or \$52.8 million, were directed to agencies engaged in affordable housing, a primary credit need in the bank's assessment areas. Approximately 35 percent, or \$28.9 million, of investments were directed toward economic development activity, and 2 percent or \$1.7 million toward community services.

SERVICE TEST

Banco Popular's rating on the service test is outstanding, based on the bank's record of providing an excellent level of banking services in its Puerto Rico assessment areas. The bank's delivery systems were accessible to essentially all portions of the assessment areas, and its record of opening and closing branches did not adversely affect the accessibility of delivery systems. In addition, business hours were reasonable and did not vary in a way that inconvenienced any

segment of the community. The bank provided a high level of community development services in its assessment areas.

Accessibility of Delivery Systems

Banco Popular's delivery systems, including the branch network and alternative delivery systems such as automated teller machines ("ATMs"), telephone banking and computer banking, were accessible to essentially all portions of Banco Popular's assessment areas.

As of March 31, 1998, Banco Popular operated 195 retail branches in its Puerto Rico assessment areas. Of the total, 19 were in-store branches located inside grocery and convenience stores, and 14 were "express" branches focusing primarily on teller facilities and providing limited customer services. Of the bank's branch total for Puerto Rico, 59 percent or 115 branches were located in PMSA 7440 (San Juan-Bayamon, PR).

Branch locations are well dispersed throughout the Puerto Rico assessment areas and adequately reflect assessment area demographics. While 21.5 percent of all branches are located in LMI geographies, 25 percent of geographies are LMI and 22 percent of the population resides in LMI geographies. For details see Exhibit 33.

In addition to the branch network, Banco Popular employs several alternative delivery systems to enhance the distribution of services throughout its assessment areas.

ATMs

As of March 31, 1998, the bank operated 407 ATMs of which 239 were in Banco Popular branches and 168 were off-site in various supermarkets and office buildings. All LMI branch locations were equipped with ATMs and 35 or 21 percent of off-site ATMs were located in LMI geographies. The total number of ATMs includes 80 new installations since the prior examination; half are at branch locations and are half off-site.

Telephone Banking

Banco Popular offers telephone services that not only allow customers to obtain balance information for deposit and loan accounts, but access to the bank's "Telepago" and "Teleprestamo" products. Telepago is an automated bill paying service that allows customers to pay utility bills and make loan and credit card payments. Teleprestamo is a customer loan application service where applications for various types of consumer credit are accepted. Credit officers staff the service and, on average, an applicant can expect a credit decision in 21 minutes. Although mortgage loan applications are not accepted through Teleprestamo, application forms can be requested. Telephone banking services are available to consumers and businesses.

Computer Banking

With free software provided by Banco Popular, customers can conduct bank transactions with their personal computers. They can obtain information about account balances, execute

payments, and transfer funds. Customers may also download financial information to spreadsheets or financial programs, and communicate with the bank by e-mail. The bank also makes a version of this service available to businesses. In addition, Banco Popular maintains an informational site on the Internet.

Changes in Branch Locations

Banco Popular's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. Since the prior examination, the bank opened 33 new branches and consolidated 14 branches in the Puerto Rico assessment areas. Of the new branches, 25 were acquired from Roig Commercial Bank on July 1, 1997. The other eight offices were primarily new in-store branches constructed in local supermarkets. The consolidated branches consist of eight former Roig branches and six Banco Popular express branches consolidated into existing Banco Popular facilities expanded to accommodate additional customer activity. All consolidations occurred within a mile or less of the receptor branch. Two consolidations occurred within LMI geographies. Most branch openings and consolidations occurred in PMSA 7440 (San Juan-Bayamon, PR).

Branch consolidations were conducted in accordance with Banco Popular's written branch-closing policy, which conforms to the Joint Interagency Policy Statement Regarding Branch Closings. The bank provided timely advance notification to affected customers and regulatory authorities.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Banco Popular's business hours and services do not vary in a way that inconveniences certain portions of its assessment areas, particularly LMI geographies and individuals. Regular banking hours are 8 a.m. to 4 p.m., Monday through Friday, and the bank made extended hours available at approximately 50 percent of its branches. Extended hours include Thursday and/or Friday evenings and Saturdays. Also, Sunday hours were available at 31 branch locations.

The bank offers a full range of deposit and credit services at all branches. Credit application forms are accessible at all branches. During the examination period, one branch in each MSA included a mortgage and automobile loan center where loan specialists accepted and processed applications.

Community Development Services

Banco Popular provided a high level of community development services in Puerto Rico including seminars, in-kind contributions, technical assistance to various community development organizations and special products and services.

Seminars

During the examination period, Banco Popular sponsored or participated in 40 seminars throughout its assessment areas. Seminars on such topics as “Business Financing for Women,” “Small Business Financing,” “Technical and Financial Requirements for Construction Loans,” and “Home Acquisition” were sometimes presented in conjunction with local community groups. Ten seminars, directed toward local community organizations, were held in conjunction with agencies such as the Department of Housing and Urban Development (“HUD”), the Federal Home Loan Bank and the Puerto Rico National Coalition of Fair Housing. These programs sought to build the organization’s capacity to implement effective community projects and programs, particularly in the area of affordable housing.

In-Kind Contributions

A variety of Banco Popular in-kind activities benefited local community development organizations. For example, Banco Popular donated classroom space, software and instructors for computer training courses for the Funacion de Hogares para Trabajadores, a community organization providing job training. The bank renovated office space in one of its buildings and provided it to the Neighborhood Housing Services (“NHS”) of San Juan. In addition, the bank provides office and organizational support to the San Juan Habitat for Humanity. Banco Popular regularly donates the use of its facilities for various meetings, conferences and fund-raisers conducted by local nonprofit community development organizations such as NHS and Proyecto Peninsula de Cantera, a neighborhood revitalization organization.

Technical Assistance

Bank management was proactive in providing technical assistance for the support of community development activities. Management and staff served as directors, advisors or committee members of 85 community development organizations throughout Puerto Rico. Some of the organizations include the following: Puerto Rico Community Development Consortium, which works to strengthen nonprofit organizations and develop community development corporations; La Fondita de Jesus, an organization providing services to the homeless; El Gandual Reverdece, a group working to improve the low-income community of Gandual; NHS of San Juan and Ponce; and Habitat for Humanity.

Special Products and Services

Banco Popular offers various community development products and services including low-cost check cashing for non-customers and free in-branch bill payment services whereby the bank accepts payments on behalf of over 50 companies and agencies such as telephone, electric and cable companies. In addition, the bank offers secured credit cards that enable applicants who do not otherwise qualify for unsecured credit, an opportunity to establish retail credit. Through its ATM network, Banco Popular has initiated a unique funds transfer service between customers in Puerto Rico and residents in the Dominican Republic, at fees less than traditional wire transfer charges.

In order to provide financial services to those without banking relationships, Banco Popular provides Access 24, a service whereby employees of various businesses participating in a direct deposit system through Banco Popular can access some banking services without having an account relationship. Employees do not receive payroll checks, but can access their wages and all of the bank's electronic services, including telephone bill payment, without charge. In addition, Access 24 customers can purchase bank checks and money orders at a reduced fee and make unlimited ATM transactions for a \$2 monthly service charge.

METROPOLITAN STATISTICAL AREAS

PMSA 7440 (SAN JUAN-BAYAMON, PR)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PMSA 7440 (SAN JUAN-BAYAMON, PR)

Performance in this PMSA had the greatest impact on the bank's overall rating and its rating in Puerto Rico when compared with the other assessment areas. Overall performance in the PMSA was excellent, based on the following summary conclusions:

- The overall geographic distribution of loans across census tracts of different income levels was excellent.
- There was a good distribution of loans among borrowers of different income levels and a strong distribution of loans to businesses of different sizes.
- Banco Popular's delivery systems were readily accessible to all portions of the PMSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

Banco Popular's presence is concentrated in PMSA 7440 where, as of March 31, 1998, the bank maintained 115 or 59 percent of its retail branches. The branches had approximately \$6.6 billion in deposits or about 75 percent of the bank's total deposits in Puerto Rico. The largest number of branches was in the San Juan municipality where 41 branches or 36 percent of all branches in the PMSA were located. In addition, Popular Finance, Inc. operated 18 loan origination offices in the PMSA while Popular Mortgage, Inc. maintained four loan offices.

During the examination period, Banco Popular and its affiliates originated 7,671 home improvement loans, 4,883 home purchase loans and refinancings, and 11,936 small business and small farm loans in the PMSA. This activity represents 55 percent, 68 percent and 59 percent, respectively, of such loans originated by the bank in Puerto Rico. Thirty-one percent of all home improvement, home purchase, refinance, and small business loans originated by the bank and its affiliates in the San Juan-Bayamon PMSA were originated in the San Juan municipality.

DESCRIPTION OF THE PMSA

The following demographic and economic information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the Puerto Rico Department of Economic Development and Commerce, Estudios Technicos, Inc., and the Banco Popular Strategic Planning Division. For details see Exhibit 13.

Demographic Characteristics

The San Juan-Bayamon PMSA encompasses 30 municipalities. It is the island's most populated area with 1.8 million residents, or 52 percent of Puerto Rico's total population. The municipality of San Juan, the island's capital and center of finance, commerce and government, has the highest concentration of population in Puerto Rico, with approximately 438 thousand residents.

Income Characteristics

The 1997 HUD estimated median family income for PMSA 7440 (San Juan-Bayamon, PR) is \$16,100, the highest in Puerto Rico. Based on the 1990 Census, of the 412 census tracts used for analysis, 135 or 33 percent are LMI tracts. Only 14 census tracts are low-income. Thirteen of the low-income tracts are in the municipality of San Juan. The San Juan municipality contains 32 percent of all census tracts in the PMSA and 35 percent of the LMI tracts. Of the 789 thousand persons living in LMI geographies in Puerto Rico, 573 thousand or 73 percent reside in this PMSA.

Housing Characteristics

According to the 1990 Census, of the 560,097 occupied housing units in this PMSA, 394,433 or 70 percent are owner-occupied. Approximately 28 percent of the owner-occupied units are in LMI census tracts, the largest percentage in Puerto Rico. The overall level of owner-occupancy is consistent throughout the various municipalities of the PMSA except San Juan. In San Juan, the level of owner-occupancy is only 55 percent. This is primarily influenced by housing in the low-income census tracts where the level of owner-occupancy is 21 percent.

The San Juan-Bayamon PMSA contains 52 percent of all owner-occupied housing units in Puerto Rico and 73 percent of the owner-occupied housing units in LMI tracts.

Housing costs in the San Juan-Bayamon PMSA are the highest in Puerto Rico. During the examination period, the average median cost of a home was \$87,831. In municipalities such as Dorado and Guaynabo, the median cost was \$195 thousand and \$133 thousand, respectively. The lowest median housing cost (\$55 thousand) was found in the municipality of Comerio.

As discussed in the description of the Puerto Rico assessment areas on page BB30, a Bankers Association study shows a high level of inadequate housing in PMSA 7440, indicating a strong demand for home improvement loans. The study estimates that approximately 37,500 housing units throughout the PMSA are in need of rehabilitation. The area with the greatest need is the municipality of San Juan, the oldest city in Puerto Rico, where it is estimated 8,341 housing units need rehabilitation.

Labor, Employment and Economic Characteristics

Approximately 62 percent of job opportunities in Puerto Rico are found in PMSA 7440, primarily in the municipalities of San Juan, Bayamon and Carolina. Dominant industries include manufacturing, construction, tourism, and other services. While jobs in construction, tourism, and other services grew, manufacturing jobs declined. The largest decline occurred in December 1997 with the closing of Nextlevels Systems Inc., a satellite receiver plant in the municipality of Barceloneta. The closing led to the loss of 1,100 jobs.

The San Juan-Bayamon PMSA has the lowest unemployment level in Puerto Rico. In 1997, the annual unemployment rate was 10.7 percent compared with an island-wide rate of 13.5 percent. As of March 1998, the unemployment level in the PMSA remained at 10.7 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

The overall geographic distribution of loans across census tracts of different income levels was excellent. Home improvement and small business loan performance reflects excellent penetration throughout the PMSA. The distribution of home purchase loans and refinancings was good. For details see Exhibits 17 through 19.

Home Improvement Loans

The overall geographic distribution of home improvement lending in PMSA 7440 (San Juan-Bayamon, PR) reflects excellent penetration. On a demand-adjusted basis, home improvement originations were 1.2 times greater in LMI census tracts than in non-LMI tracts. Particularly strong performance was noted in the municipalities of Toa Baja, Toa Alta, Yabucoa, Humacao, Loiza and Luquillo. Weak loan penetration was noted in the municipalities of Fajardo, Rio Grande and Carolina. The weak loan penetration in Rio Grande and Carolina is attributed to limited LMI lending opportunities. Rio Grande has only 1,450 owner-occupied housing units in moderate income tracts, while Carolina has only 883 such housing units. There are no owner-occupied units in low income tracts.

On a demand-adjusted basis, Banco Popular's lending performance in LMI census tracts of this PMSA was comparable to the aggregate of all other HMDA reporters for 1997.

Home Purchase Loans and Refinancings

The geographic distribution of home purchase loans and refinancings reflects good penetration in the PMSA. On a demand-adjusted basis, mortgage originations were only 1.3 times greater in non-LMI census tracts than in LMI census tracts. Strong loan penetration was noted in the

municipalities of Manati, Toa Alta, Naguabo, Barceloneta, Vega Alta and Carolina. Weak loan penetration was noted in Yabucoa, Vega Baja, Toa Baja and Aguas Buenas.

In 1997, on a demand-adjusted basis, Banco Popular showed stronger lending performance in the LMI census tracts of PMSA 7440 than the aggregate of other HMDA reporters.

Small Business Loans

The bank exhibited an excellent distribution of small business loans in this PMSA. During the examination period, the bank originated 11,936 or 59 percent of its small business loans there. The San Juan-Bayamon PMSA contains 59 percent of the bank's branches and 52 percent of the population in Puerto Rico. Of the total small business loans originated, 2,808 or 23.5 percent were in LMI census tracts.

According to 1997 aggregate small business lending data for PMSA 7440, Banco Popular originated 70 percent of all small business loans and 72 percent of all small business loans in LMI census tracts in the PMSA.

Borrower Characteristics

The distribution of home improvement and home purchase loans and refinancings among borrowers of different income levels was acceptable given borrower income levels and housing costs in the PMSA. The distribution of loans to businesses of different sizes was excellent.

For details see Exhibits 20 through 22.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels was acceptable given the low income levels of borrowers in the PMSA. For the examination period, 16 percent of loan originations were to LMI borrowers.

A review of 1997 activity of all HMDA reporters indicates a low level of home improvement lending to LMI borrowers in the San Juan-Bayamon PMSA and that Banco Popular's performance was consistent with all HMDA reporters. Of all home improvement originations in PMSA 7440, 18 percent were to LMI borrowers. For Banco Popular, 16 percent of such loans were to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects a reasonable distribution, given high housing costs and the low income levels of borrowers in the PMSA. For the examination period, 3 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to result from the significant gap between housing costs in the PMSA relative to income levels, which generally precludes LMI borrowers from the housing market. As noted in the description of the Puerto Rico assessment

areas, the average median housing price in PMSA 7440 was \$87,831. LMI families, whose income level is \$12,880 or less, would generally be unable to finance the purchase of a home in this market.

The 1997 activity of all HMDA reporters supports the contention that LMI borrowers in the PMSA are generally precluded from the housing market. Of all home purchase loans and refinancings originated in the PMSA, 1 percent were to LMI borrowers. Of Banco Popular's loans in the PMSA, 3 percent were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes is excellent in the San Juan-Bayamon PMSA. Eighty percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$33,122, an amount that would typically meet the credit needs of smaller businesses.

Of all small business loans in the PMSA, 61 percent of loans originated by the bank during the examination period were to businesses with GAR of \$1 million or less. The average loan size was \$61,259.

In addition, the revenue size of the business was not considered for 16 percent of all small business loan originations. Management noted that such loans were cash collateral or character loans to businesses that generally had GAR of \$1 million or less.

Banco Popular's overall 1997 performance was excellent when compared with all other small business lenders in the PMSA. Of the small business loans originated by the bank, 83 percent of such loans were for amounts of \$100 thousand or less, while the aggregate of all other lenders reported 80 percent of such loan originations. Regarding loans to businesses with GAR of \$1 million or less, Banco Popular reported 59 percent of small business loan originations to such businesses, while the aggregate of all other lenders reported 44 percent of such loans.

Community Development Lending

Banco Popular's community development lending in PMSA 7440 (San Juan-Bayamon, PR) totaled \$31.8 million. Lending activities centered on affordable housing initiatives, which totaled \$18 million or 57 percent of total PMSA community development lending and provided for the construction of 1,241 affordable housing units. Economic development initiatives totaled \$11.7 million or 37 percent of total PMSA community development lending while community service lending totaled \$2.1 million or 6 percent of total PMSA community development lending activity. For details see Exhibit 24.

Innovative and Flexible Lending Practices

As described on page BB37, there were a variety of innovative and flexible lending programs available in all of the bank's Puerto Rico assessment areas. There are no special innovative and flexible lending programs specific to this PMSA.

INVESTMENT TEST

Qualified investments in the San Juan-Bayamon PMSA totaled \$14.8 million. Investments were directed primarily toward affordable housing initiatives and totaled \$12.6 million or 85 percent of total investment activity in the PMSA. For details see Exhibit 29.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular's branch network was generally accessible to all portions of PMSA 7440 (San Juan-Bayamon, PR). Of the 115 branch sites, 30 or 26 percent were located in LMI tracts. This compares favorably with the demographics of the PMSA where 33 percent of the census tracts are LMI and 31 percent of the population resides in LMI census tracts. The bank operated 257 ATMs in this PMSA, 112 of which were located off-site in various supermarkets and office buildings.

For details see Exhibit 33.

Opening and Closing of Branches

Since the prior examination, the bank opened 24 new branches and consolidated 11 branches in the PMSA. Of the new branches, 22 were acquired from Roig Commercial Bank. The other two offices were new in-store branches constructed in local supermarkets. The consolidated branches consisted of seven former Roig branches and four Banco Popular express branches combined into existing Banco Popular facilities which were expanded to accommodate additional customer activity. All consolidations occurred within a mile or less of the receptor branch. One consolidation occurred within an LMI census tract where the receptor branch was six blocks away. The consolidation did not appear to impact the delivery of services in the community.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Branch hours and services did not vary in a way that inconvenienced certain portions of the PMSA. Approximately 58 percent of the bank's branches had extended evening and/or weekend hours including 21 branches with Sunday hours. All branches offer a full range of deposit and credit services.

Community Development Services

Banco Popular provides support to community development activities in PMSA 7440 (San Juan-Bayamon, PR) through seminars, in-kind donations and technical assistance. During the examination period, the bank conducted 15 seminars on topics such as small business management, housing, and construction loans. It provided office space to the NHS of San Juan and office support to Habitat for Humanity, as well as providing space for a fund-raiser to benefit

the Proyecto Peninsula de Cantera. Technical assistance was provided to approximately 35 organizations including Destellos de la Moda, an organization assisting underprivileged children; Angel Ramos Foundation, an organization that supports nonprofit groups; and the Consumer Credit Counseling Service.

MSA 6360 (PONCE, PR)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 6360
(PONCE, PR)**

Overall performance in this MSA was good, based on the following summary conclusions:

- The overall geographic distribution of loans across census tracts of different income levels was good.
- There was a good distribution of loans among borrowers of different income levels and businesses of different sizes.
- Banco Popular's delivery systems were readily accessible to all portions of the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of March 31, 1998, Banco Popular maintained 15 of its branches, or 8 percent, in the Ponce MSA. The branches contained approximately \$426 million in deposits or 5 percent of the bank's deposits in Puerto Rico. Most branches were concentrated in the municipality of Ponce where nine branches, or 60 percent of all branches in the MSA, were located. The branches in Ponce contain about \$273 million in deposits or 64 percent of the deposits in MSA 6360. In addition, a bank affiliate, Popular Finance, Inc., operated eight loan offices in the MSA.

During the examination period, Banco Popular and its affiliates originated 957 home improvement loans, 497 home purchase loans and refinancings, and 1,480 small business loans in this MSA, representing approximately 7 percent of all such lending by Banco Popular and its affiliates in Puerto Rico. Of the HMDA-related and small business loans originated by the bank and its affiliates in MSA 6360, 50 percent and 65 percent, respectively, were originated in the municipality of Ponce.

DESCRIPTION OF THE MSA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the Puerto Rico Department of Economic Development and Commerce, Estudios Technicos, Inc., and the Banco Popular Strategic Planning Division. For details see Exhibit 14.

Demographic Characteristics

The Ponce MSA encompasses the southwestern portion of the island of Puerto Rico. It contains six municipalities, the largest of which is Ponce, the second most populous municipality on the island. According to the 1990 Census, the total population of this MSA is 342,649 or about 10 percent of the total population of Puerto Rico.

Income Characteristics

In 1997, the HUD adjusted median family income for MSA 6360 was \$11,800. Based on the 1990 census, of the 77 census tracts used for analysis of the MSA, 18 or 23 percent are LMI tracts; however, only one census tract, in the municipality of Ponce, is low-income. The Ponce municipality also contains all but four of the MSA's moderate-income tracts. The municipalities of Guayanilla, Yauco and Peñuelas have no LMI tracts.

Housing Characteristics

Of the 96,077 occupied housing units in the MSA, 70,230 or 73 percent are owner-occupied. Only 16 percent or about 11,080 units of owner-occupied housing are located in the MSA's LMI census tracts. Approximately 53 percent of the MSA's owner-occupied housing units and 70 percent of owner-occupied housing units in LMI census tracts are in the municipality of Ponce.

The Ponce MSA contains about 9 percent of the owner-occupied housing units in Puerto Rico and 7 percent of such units located in LMI census tracts.

Housing costs in the Ponce MSA are high. During the examination period, the average median price of a home was \$79,055. The highest costs were found in the municipality of Yauco, where the median price was \$114,275. The lowest median price in the MSA was \$53,700 in the municipality of Juana Diaz.

As discussed in the description of the Puerto Rico assessment areas on page BB30, a Puerto Rico Bankers Association study shows a high level of inadequate housing, indicating a strong demand for home improvement loans. The study estimates that approximately 13,400 housing units throughout this MSA are in need of rehabilitation. The area with the greatest need is Ponce, the second oldest city in Puerto Rico, where it is estimated 5,014 housing units need rehabilitation.

Labor, Employment and Economic Characteristics

Ponce is considered the business and commercial center of the southern portion of the island. The economies of the other municipalities (Juana Diaz, Villalba, Guayanilla, Peñuelas and Yauco) are generally agricultural.

In 1997, the annual unemployment rate in the Ponce MSA was 17.8 percent. As of March 1998, the unemployment rate of this MSA was 17.3 percent, one of the highest in Puerto Rico.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

Overall, the geographic distribution of loans in the Ponce MSA was good. The distribution of home improvement loans reflects weakness but the distribution of home purchase loans and refinancings shows good penetration and small business loan distribution was excellent. For details see Exhibits 17 through 19.

Home Improvement Loans

The overall geographic distribution of home improvement lending activities in MSA 6360 (Ponce, PR) reflects weak penetration. Although home improvement originations were only 1.4 times greater in non-LMI census tracts than in LMI census tracts, on a demand-adjusted basis, weakness was found in the municipality of Ponce where lending was 1.9 times greater in non-LMI census tracts than LMI tracts. Ponce contains 53 percent of the total housing units in the MSA and 70 percent of the housing units in LMI census tracts.

In 1997, on a demand-adjusted basis, Banco Popular's lending performance in the LMI census tracts of this MSA was weaker than the aggregate of other HMDA reporters.

Home Purchase Loans and Refinancings

The overall geographic distribution of home purchase and refinance lending activities in MSA 6360 reflects good penetration. On a demand-adjusted basis, mortgage loan originations were 1.5 times greater in LMI census tracts than in non-LMI census tracts. Strong penetration in LMI census tracts was noted in the municipalities of Juana Diaz.

In 1997, on a demand-adjusted basis, Banco Popular showed much stronger lending performance in the LMI census tracts of this MSA than the aggregate of other HMDA reporters.

Small Business Loans

The overall geographic distribution of small business loans in MSA 6360 was strong. During the examination period, the bank originated 1,480 or 7 percent of its small business loans in the MSA. The Ponce MSA contains 8 percent of the bank's branches and 10 percent of the population in Puerto Rico. Of the small business loans originated, 108 or 7 percent were in moderate-income census tracts.

According to 1997 small business data for all lenders, Banco Popular originated 66 percent of all small business loans and 51 percent of all small business loans in the LMI census tracts of this MSA.

Borrower Characteristics

The distribution of home improvement loans, home purchase loans and refinancings among borrowers of different income levels was acceptable, given borrower income levels and housing costs in the MSA. The distribution of loans to businesses of different sizes was excellent. For details see Exhibits 20 through 22.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels was acceptable given the low income levels of borrowers in the MSA, as discussed in the description of the MSA. For the examination period, 10 percent of the bank's loan originations in this MSA was to LMI borrowers.

A review of 1997 activity of all HMDA reporters indicates a low level of home improvement lending to LMI borrowers in the Ponce MSA. Of all home improvement originations there, 9 percent were to LMI borrowers. Banco Popular also originated 9 percent of its home improvement loans in the MSA to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects a reasonable distribution, given high housing costs and low income levels of borrowers in the MSA. For the examination period, 1 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to result from the significant gap between housing costs in the MSA and income levels, which generally precludes LMI borrowers from the housing market. During the examination period, the average median housing price in MSA 6360 was \$79,055. LMI families, whose income level is \$9,440 or less, would generally be unable to finance the purchase of a home in this market.

The 1997 activity of all HMDA reporters supports the contention that LMI borrowers in the MSA are generally precluded from the housing market. Of all home purchase loans and refinancings originated in the MSA, less than 1 percent were to LMI borrowers. Of Banco Popular's loans in the Ponce MSA, 1 percent were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes was strong in the Ponce MSA. Eighty nine percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$29,501, an amount that would typically meet the credit needs of smaller businesses.

Of all small business loans in the MSA, 72 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. The average loan size was \$45,204.

In addition, the revenue size of the business was not considered for 13 percent of all small business loan originations. Management noted that such loans were cash collateral or character loans to businesses that generally had GAR of \$1 million or less.

Banco Popular's overall 1997 performance was strong when compared with all other small business lenders in the MSA. Banco Popular reported 90 percent of small business loan originations for amounts of \$100 thousand or less, while the aggregate of all other lenders reported 83 percent of such loan originations. Regarding loans to businesses with GAR of \$1 million or less, Banco Popular reported 69 percent of small business loan originations were made to such businesses, with the aggregate of all other lenders originating 47 percent of loans to such businesses.

Community Development Lending

Banco Popular's community development lending in MSA 6360 (Ponce, PR) totaled \$6.3 million. Lending activities centered on affordable housing initiatives, which totaled \$4.9 million or 78 percent of total MSA community development lending and provided for the construction of 359 affordable housing units. Community service lending totaled \$1.4 million or 22 percent of total community development lending activity. For details see Exhibit 25.

Innovative and Flexible Lending Practices

As described on page BB37, various innovative and flexible lending programs were available in all of the bank's Puerto Rico assessment areas. There are no special innovative and flexible lending programs specific to this MSA.

INVESTMENT TEST

Qualified investments in the Ponce MSA totaled \$857 thousand. Investments were primarily directed toward affordable housing initiatives and totaled \$645 thousand or 75 percent of total activity in the MSA. For details see Exhibit 30.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular's branch network was readily accessible to all portions of MSA 6340 (Ponce, PR). Of the 15 branch sites, four or 27 percent were in LMI tracts. This compares favorably with the demographics of the MSA where 23 percent of the census tracts are LMI and 19 percent of the population resides in LMI census tracts. The bank also operated 30 ATMs in this MSA, 13 of which were off-site. Four off-site ATMs were located in LMI census tracts. For details see Exhibit 33.

Opening and Closing of Branches

During the examination period, one new branch was opened in an LMI census tract in the Ponce MSA. No branches were closed or consolidated.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Branch hours and services did not vary in a way that inconveniences certain portions of the MSA. Approximately 40 percent of the bank's branches have extended evening and/or weekend hours, including two branches with Sunday hours. All branches offer a full range of deposit and credit services.

Community Development Services

Banco Popular supports community development activities in the Ponce MSA through technical assistance. During the examination period, the bank assisted nine organizations including the NHS of Ponce; Guadalupe Housing Co-op, a group housing 298 low-income families; Asociacion Ex Alumnos PUCPR, an organization assisting low-income students; and Consejo de la Industria Privada de Ponce, a job training center.

MSA 4840 (MAYAGUEZ, PR)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 4840
(MAYAGUEZ, PR)**

Overall performance in the MSA was good, based on the following summary conclusions:

- The overall geographic distribution of loans across census tracts of different income levels was good.
- There was a good distribution of loans among borrowers of different income levels and businesses of different sizes.
- Banco Popular's delivery systems were reasonably accessible to all portions of the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of March 31, 1998, Banco Popular maintained 12, or 6 percent, of its branches in the Mayaguez MSA. The branches contained approximately \$327 million in deposits, or 4 percent of the bank's deposits in Puerto Rico. Most branches were concentrated in the municipality of Mayaguez where four branches containing \$282 million in deposits were located. In addition, a bank affiliate, Popular Finance, Inc., operated three loan offices in the MSA.

During the examination period, Banco Popular and its affiliates originated 637 home improvement loans, 248 home purchase loans and refinancings, and 1,147 small business loans. This activity represents 5 percent, 3 percent, and 6 percent, respectively, of all such loan originations in Puerto Rico.

DESCRIPTION OF THE MSA

The following demographic and economic information was obtained from publicly available sources including the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the Puerto Rico Department of Economic Development and Commerce, Estudios Technicos, Inc. and the Banco Popular Strategic Planning Division. For details see Exhibit 15.

Demographic Characteristics

MSA 4840 consists of six municipalities, the largest of which is Mayaguez. Total population of the MSA is approximately 237 thousand, about 7 percent of the total population of Puerto Rico.

Income Characteristics

The 1997 HUD adjusted median family income in the Mayaguez MSA was \$12,500. Based on the 1990 census, of the 61 census tracts used for analysis, 11 or 18 percent are LMI. Seven of the 11 LMI census tracts in the MSA are in the municipality of Mayaguez. The municipalities of Añasco and Hormigueros have no LMI tracts.

Housing Characteristics

Of the 74,914 occupied housing units in the MSA, 52,930 or 71 percent are owner-occupied. Of the total owner-occupied units, only 13 percent or about 6,869 units are located in LMI census tracts. The Mayaguez MSA contains approximately 7 percent of the owner-occupied housing units in Puerto Rico and 4 percent of such units located in LMI tracts.

The cost of housing in the Mayaguez MSA is high. During the examination period, the average median cost of a home in the MSA was \$68,708. The highest costs were found in the municipality of San German, where the median price was \$81 thousand. The lowest costs were in the Sabana Grande municipality where the median price was \$48 thousand.

As discussed on page BB30, a Puerto Rico Bankers Association study shows a high level of inadequate housing in Puerto Rico, indicating a demand for home improvement loans. The study estimates that approximately 6,665 housing units throughout the MSA are in need of rehabilitation. The area with the greatest need is the municipality of Mayaguez.

Labor, Employment and Economic Characteristics

Most job opportunities are found in Mayaguez, the principal city of the MSA and the largest city on the west coast of Puerto Rico. For 1997, the annual unemployment rate for the MSA was 16.8 percent. As of March 1998, the unemployment rate for the MSA was 16.2 percent, one of the highest rates on the island.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Geographic Distribution of Lending

Overall, the geographic distribution of loans in the MSA was good given the limited LMI lending opportunities. The geographic distribution of home improvement loans reflects good penetration, while the distribution of home purchase loans and refinancings shows weakness. The distribution of small business loans was excellent. For details see Exhibits 17 through 19.

Home Improvement Loans

Overall, the geographic distribution of the bank's home improvement loans in MSA 4840 (Mayaguez, PR) was good given the limited LMI lending opportunities in the MSA. On a demand-adjusted basis, home improvement loan originations were 1.4 times greater in non-LMI

census tracts than in LMI census tracts. Weak penetration was noted in the municipality of San German, but the municipality's has only 1,226 units of owner-occupied housing in moderate income census tracts. There are no owner-occupied housing in low-income tracts.

In 1997, Banco Popular's lending performance in the LMI census tracts of MSA 4840 was stronger on a demand-adjusted basis than the aggregate of other HMDA reporters.

Home Purchase Loans and Refinancings

The overall geographic distribution of home purchase lending and refinancing activities in this MSA reflects weak penetration; however, as noted above, lending opportunities in LMI tracts are limited. On a demand-adjusted basis, mortgage originations in non-LMI census tracts were twice those in LMI tracts. Performance was reasonable in the municipalities of Sabana Grande and San German, but weak penetration was noted in the LMI census tracts in the municipalities of Mayaguez and Cabo Rojo.

In 1997, Banco Popular's performance in the LMI census tracts of MSA 6360 was stronger on a demand-adjusted basis than the aggregate of other HMDA reporters.

Small Business Loans

The geographic distribution of small business loans in MSA 4840 is considered excellent. During the examination period, the bank originated 1,147, or 6 percent, of its small business loans in the MSA. The Mayaguez MSA contains 6 percent of the bank's branches and 7 percent of the total population of Puerto Rico. Of the total small business loans originated in the MSA, 166, or 14.5 percent, were in LMI census tracts. This is an improvement from the previous examination (June 2, 1997), when 6 percent of small business loans were originated in LMI census tracts.

According to 1997 small business data for MSA 4840, Banco Popular originated 49 percent of all small business loans and 42 percent of all small business loans in LMI census tracts.

Borrower Characteristics

The distribution of home improvement loans, home purchase loans and refinancings among borrowers of different income levels was acceptable given borrower income levels and housing costs in the MSA. The distribution of loans to businesses of different sizes was excellent. For details see Exhibits 20 through 22.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels was reasonable given the low income levels of borrowers in the MSA. For the examination period, 8 percent of loan originations were to LMI borrowers.

A review of 1997 activity of all HMDA reporters indicates that of all home improvement loan originations in the Mayaguez MSA, 15 percent were to LMI borrowers. Banco Popular also originated 15 percent of such loans to LMI borrowers in the MSA.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects a reasonable distribution, given high housing costs and low income levels of borrowers in the MSA. For the examination period, less than 1 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to result from the significant gap between housing costs in the MSA and income levels, which generally precludes LMI borrowers from the housing market. During the examination period, the average median housing price in MSA 4840 was \$68,708. LMI families, whose income level is \$10 thousand or less, would generally be unable to finance the purchase of a home in this market.

The 1997 activity of all HMDA reporters supports the contention that LMI borrowers are generally precluded from the mortgage market. Of all home purchase loans and refinancings originated in the MSA, less than 1 percent were to LMI borrowers. Of Banco Popular's loans, less than 1 percent were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes was strong in the Mayaguez MSA. Eighty-five percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$28,852, an amount that would typically meet the credit needs of smaller businesses.

Of all small business loans in the MSA, 62 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. The average loan size was \$52,532.

In addition, the revenue size of the business was not considered for 12 percent of all small business loan originations. Management noted that such loans were cash collateral or character loans to businesses that generally had GAR of \$1 million or less.

Banco Popular's overall 1997 performance was better than that of all other small business lenders in the MSA. Banco Popular reported 86 percent of small business loan originations for amounts of \$100 thousand or less, while the aggregate of all other lenders reported 83 percent of such loan originations. Regarding loans to businesses with GAR of \$1 million or less, Banco Popular reported originating 65 percent of small business loans to such businesses, while the aggregate of all other lenders reported originating 60 percent to such businesses.

Community Development Lending

Banco Popular's community development lending in MSA 4840 totaled \$51 thousand, all of which was directed toward community service activities. For details see Exhibit 26.

Innovative and Flexible Lending Practices

As described on page BB37, there were a variety of innovative and flexible lending programs available in all of the bank's Puerto Rico assessment areas. There are no special innovative and flexible lending programs specific to this MSA.

INVESTMENT TEST

Qualified investments in the Mayaguez MSA totaled \$402 thousand. Investments were primarily directed toward economic development and totaled \$300 thousand or 75 percent of total activity in the MSA. For details see Exhibit 31.

SERVICE TEST

Accessibility of Delivery Systems

The bank's branch network was generally accessible to all portions of MSA 4840 (Mayaguez, PR). Of the 12 branches in the MSA, one or 8 percent are in LMI tracts. This does not fully reflect the demographics of the MSA where 18 percent of the census tracts are LMI and 15 percent of the population resides in LMI census tracts. Banco Popular operated 26 ATMs in MSA 4840, 11 of which were off-site. One off-site ATM was located in an LMI census tract. For details see Exhibit 33.

Opening and Closing of Branches

During the examination period, Banco Popular opened two new branches in the Mayaguez MSA and consolidated one branch. No such activity occurred in LMI census tracts.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Branch hours and services did not vary in a way that inconveniences certain portions of the MSA. Approximately 67 percent of the bank's branches have extended evening and/or weekend hours, including four branches with Sunday hours. All branches offer a full range of deposit and credit products and services.

Community Development Services

Banco Popular supports community development activities in this MSA through seminars and technical assistance. During the examination period, the bank participated in or sponsored six seminars on topics such as lending for small business owners and investment alternatives. Technical assistance was provided to Estancia Corazon, a group providing services to AIDS patients, and the Migrant Health Program.

MSA 0060 (AGUADILLA, PR)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN MSA 0060
(AGUADILLA, PR)**

Overall performance in the MSA was acceptable given the limited lending opportunities in LMI areas and economic conditions in the MSA. The overall conclusion was based on the following summary conclusions:

- The geographic distribution of home improvement and home purchase loans, and refinancings of such loans across census tracts of different income levels was acceptable based on limited lending opportunities in the MSA. The distribution of small business loans was good.
- There was an acceptable distribution of loans among borrowers of different income levels, given the income levels in the MSA, and an excellent distribution of loans to businesses of different sizes.
- Banco Popular's delivery systems were readily accessible to all portions of the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of March 31, 1998, Banco Popular maintained six, or 3 percent, of its branches in the MSA. The branches contained approximately \$181 million in deposits or 2 percent of the bank's total deposits in Puerto Rico. Four branches representing \$118 million in deposits were located in the municipality of Aguadilla. In addition, a bank affiliate, Popular Finance, Inc., operated four loan offices in the MSA.

During the examination period, Banco Popular and its affiliates originated 658 home improvement loans, 193 home purchase loans and refinancings, and 814 small business loans. This activity represents 5 percent, 3 percent, and 4 percent, respectively, of all such loan originations by the bank and its affiliates in Puerto Rico.

DESCRIPTION OF THE MSA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, and HUD. For details see Exhibit 16.

Demographic Characteristics

MSA 0060, located on the northeastern tip of Puerto Rico, consists of the municipalities of Aguadilla, Aguada and Moca. The total population is 128,172, about 4 percent of the total population of Puerto Rico.

Income Characteristics

The 1997 HUD adjusted median family income in the Aguadilla MSA was \$10,900, the lowest of all the MSAs in Puerto Rico. Based on the 1990 census, only three of the 26 census tracts used for analysis are moderate-income census tracts, and all three are in Aguadilla. There are no low-income census tracts.

Housing Characteristics

According to the 1990 Census, of the 37,613 occupied housing units in the MSA, 74 percent or 27,886 units are owner-occupied. Approximately 1,800 units of owner-occupied housing units or 6 percent are located in moderate-income census tracts.

The Aguadilla MSA contains about 4 percent of the total owner-occupied housing units in Puerto Rico and about 2 percent of such units located in moderate-income census tracts. During the examination period, the average median cost of a home in the MSA was \$73 thousand.

Labor, Employment and Economic Characteristics

The unemployment rate in MSA 0060 is the highest of all MSAs in Puerto Rico. For 1997, the unemployment rate was 19.6 percent. The rate climbed slightly during the first two months of 1998, but declined somewhat in March, when the unemployment rate was 18.2 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

The distribution of home improvement loans, home purchase loans, and refinancings was acceptable given the limited lending opportunities in the MSA. The distribution of small business loans was good. For details see Exhibits 17 through 19.

Home Improvement Lending

The geographic distribution of home improvement loans was reasonable in MSA 0060 (Aguadilla, PR) given that LMI lending opportunities are limited to 1,805 owner-occupied housing units in

the moderate-income census tracts of Aguadilla. The municipalities of Aguada and Moca do not contain any LMI census tracts.

In 1997, Banco Popular's lending performance in moderate census tracts was weaker on a demand-adjusted basis, than the aggregate of other HMDA lenders. Banco Popular, however, originated 86 percent of all home improvement loans and 66 percent of all home improvement loans in the MSA's moderate-income tracts.

Home Purchase Loans and Refinancings

Banco Popular and its affiliates originated only one mortgage loan in the MSA. This performance reflects a very weak housing market in the MSA's moderate-income census tracts. The weak housing market may be the result of the MSA's low income levels and high unemployment, as discussed in the description of the MSA. According to aggregate HMDA data for 1997, all lenders collectively reported only eight home purchase loans or refinancings in the moderate-income tracts of the Aguadilla MSA.

Small Business Loans

The overall geographic distribution of small business loans in this MSA was good. During the examination period, the bank originated 814 or 4 percent of its total small business loans in this MSA. The Aguadilla MSA contains 3 percent of the bank's branches and 4 percent of the total population of Puerto Rico. Of the total loans originated, 51 or 6 percent were originated in moderate-income census tracts. This is an improvement over the previous examination (June 2, 1997), when 1 percent of the small business loans were originated in moderate-income census tracts.

According to 1997 aggregate small business data, Banco Popular originated 74 percent of all small business loans and 26 percent of all small business loans in the LMI census tracts of the MSA.

Borrower Characteristics

The distribution of home improvement loans, home purchase loans and refinancings among borrowers of different income levels was acceptable given the income levels of borrowers and housing costs in the MSA. The distribution of loans to businesses of different sizes was excellent. For details see Exhibits 20 through 22.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels was acceptable given the low income levels of borrowers in the MSA. For the examination period, 7 percent of loan originations were to LMI borrowers.

A review of 1997 activity of all HMDA reporters indicates a low level of home improvement lending to LMI borrowers in the Aguadilla MSA. Of all home improvement originations in MSA

0060, 1.5 percent were to LMI borrowers. Banco Popular originated 7.5 percent of such loans to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects a reasonable distribution, given high housing costs and low income levels of borrowers in the MSA. For the examination period, less than 1 percent of loan originations were to LMI borrowers. This level of lending to LMI borrowers appears to result from the significant gap between housing costs in the MSA relative to income levels, which generally precludes LMI borrowers from the housing market. During the examination period, the average median housing price in MSA 0060 was \$73,000. LMI families, whose income level is \$8,720 or less, would generally be unable to finance the purchase of a home in this market.

The 1997 activity of all HMDA reporters supports the contention that LMI borrowers are generally precluded from the mortgage market. Of all home purchase loans and refinancings originated in the MSA, less than 1 percent were to LMI borrowers. Of Banco Popular's loans, less than 1 percent were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes was excellent in the Aguadilla MSA. Eighty-six percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$30,137, an amount that would typically meet the credit needs of smaller businesses.

Of all small business loans in the MSA, 66 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. The average loan size was \$45,039.

In addition, the revenue size of the business was not considered for 18 percent of all small business loan originations. Management noted that such loans were cash collateral or character loans to businesses that generally had GAR of \$1 million or less.

Banco Popular's overall 1997 performance was excellent when compared with all other small business lenders in the MSA. Banco Popular reported 92 percent of small business loan originations in amounts of \$100 thousand or less, while the aggregate of all other lenders reported 86 percent of such loan originations. Regarding loans to businesses with GAR of \$1 million or less, Banco Popular reported 71 percent of its small business loan originations to such businesses, while the aggregate of all other lenders reported originating 59 percent of such loans.

Community Development Lending

Banco Popular's community development lending in MSA 0060 (Aguadilla, PR) totaled \$1.1 million. Lending activities centered on affordable housing initiatives, which totaled \$1 million and provided for the construction of 41 affordable housing units. Community service lending totaled \$25 thousand. For details see Exhibit 27.

Innovative and Flexible Lending Practices

As described on page BB37, various innovative and flexible lending programs are available in all of the bank's Puerto Rico assessment areas. There are no special innovative and flexible lending programs specific to this MSA.

INVESTMENT TEST

Qualified investments in the Aguadilla MSA totaled \$1.1 million of total qualified investments in the MSA, virtually all were directed toward economic development activity. For details see Exhibit 32.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular branches were accessible to all portions of MSA 0060. Of the six branches in the MSA, one was in a moderate-income tract, while 12 percent of the census tracts are moderate-income, and 7 percent of the population lives in moderate-income census tracts. The bank also operated 15 ATMs in the MSA, 7 of which were off-site. For details see Exhibit 33.

Opening and Closing of Branches

No branches were opened or closed in this MSA during the examination period.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Branch hours and services did not vary in a way that inconveniences certain portions of the MSA. Approximately 67 percent of the bank's branches have extended evening and/or weekend hours. All branches offer a full range of deposit and credit services.

Community Development Services

Banco Popular provided support for community development through seminars in the Aguadilla MSA. Two seminars were conducted, one on small business operations and the other focused on banking services and borrowing alternatives for business owners.

PMSA 1310 (CAGUAS, PR)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PMSA 1310 (CAGUAS, PR)

Performance in the PMSA is consistent with the bank's overall performance in Puerto Rico, based on the geographic distribution of loans, the distribution of loans among customers of different income levels and businesses of different sizes, and the accessibility of the bank's delivery systems.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of March 31, 1998, the bank maintained 11, or 6 percent, of its retail branches in PMSA 1310. These branches contained approximately \$485 million in deposits, or 6 percent of the bank's total deposits in Puerto Rico. In addition, Popular Finance, Inc. operated four loan origination offices in the PMSA.

During the examination period, the bank and its affiliates originated 1,843 home improvement loans, 626 home purchase loans and refinancings, and 1,423 small business loans in the Caguas PMSA. This activity represents 13 percent, 9 percent, and 7 percent, respectively, of all such origination by the bank and its affiliates in Puerto Rico.

DESCRIPTION OF THE PMSA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor and HUD.

Demographic Characteristics

The Caguas PMSA consists of the municipalities of Caguas, San Lorenzo, Cayey, Cidra and Gurabo. The total population is 279,501 or about 8 percent of the total population of Puerto Rico.

Income Characteristics

The 1997 HUD estimated median family income for the Caguas PMSA is \$14,900, the second highest in Puerto Rico. According to the 1990 Census, of the 58 census tracts used for analysis, none are low-income census tracts and 15 are moderate-income tracts representing 26 percent of all tracts in the PMSA.

Housing Characteristics

There are 60,539 owner-occupied housing units in PMSA 1310, representing approximately 12.5 percent of all owner-occupied housing units in Puerto Rico. Only 12,205 or 20 percent of owner-occupied housing units are located in LMI tracts.

Labor, Employment and Economic Characteristics

In 1997, the unemployment rate in the Caguas PMSA was 12.1 percent, one of the lowest in Puerto Rico. As of March 1998, the unemployment rate in this MSA was 12.4 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

Overall, the geographic distribution of loans in the Caguas PMSA was generally consistent with the bank's performance in Puerto Rico.

For details, see Exhibits 17 through 19.

Home Improvement Loans

On a demand-adjusted basis, home improvement lending in LMI and non-LMI tracts was equivalent.

Home Purchase Loans and Refinancings

Home purchase and refinance activity was 1.8 times greater in non-LMI census tracts than LMI tracts.

Small Business Loans

During the examination period, the bank originated 1,423, or 7 percent, of its small business loans in the PMSA. Two-hundred sixty-five, or 19 percent, of the loans were originated in moderate-income census tracts. The Caguas PMSA contains 6 percent of the bank's branches and 8 percent of the population in Puerto Rico.

Borrower Characteristics

Overall, the distribution of loans among borrowers of different income levels and businesses of different sizes in the Caguas PMSA was generally consistent with the bank's performance in Puerto Rico, as shown in Exhibits 20 through 22.

Home Improvement Loans

For the examination period, 15 percent of home improvement loans originated by the bank and its affiliates in this PMSA were to LMI borrowers.

Home Purchase Loans and Refinancings

Of the home purchase loans and refinancings originated during the examination period, 3 percent were originated by the bank and its affiliates in this PMSA were to LMI borrowers.

Lending to Small Businesses

Eighty-three percent of the bank's small business loans originated during the examination period were for amounts of \$100 thousand or less. The average size of such loans was \$32,711. Of all small business loans originated by the bank in the PMSA, 59 percent were to businesses with GAR of \$1 million or less.

Community Development Lending

Banco Popular's community development lending in PMSA 1310 (Caguas, PR) totaled \$2.3 million.

INVESTMENT TEST

Qualified investments in the Caguas PMSA totaled \$2.6 million.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular branches are accessible to all portions of the PMSA. Of the 11 branches in the PMSA, two or 18 percent were located in LMI census tracts. This compares with the demographics of the PMSA where 26 percent of the census tracts are LMI and 21 percent of the population resides in LMI tracts.

Opening and Closing of Branches

Banco Popular acquired one branch in the Roig transaction located in the Caguas PMSA. It was consolidated into an existing Banco Popular branch within two blocks of the original Roig location.

PMSA 0470 (ARECIBO, PR)

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PMSA 0470
(ARECIBO, PR)**

Performance in the PMSA is consistent with the bank's overall performance in Puerto Rico based on the geographic distribution of loans, the distribution of loans among customers of different income levels and businesses of different sizes, and the accessibility of the bank's delivery systems.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of March 31, 1998, Banco Popular maintained seven, or 4 percent, of its retail branches in the Arecibo PMSA. These branches contained deposits of approximately \$166 million or 2 percent of the bank's overall deposits in Puerto Rico. In addition, the bank's affiliate, Popular Finance, Inc., operated four loan origination offices in the PMSA.

During the examination period, the bank and its affiliates originated 524 home improvement loans, 128 home purchase loans and refinancings, and 1,035 small business loans. Such activity represents 4 percent, 2 percent and 5 percent, respectively, of all such originations by the bank and its affiliates in Puerto Rico.

DESCRIPTION OF THE PMSA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor and HUD.

Demographic Characteristics

PMSA 0470 contains the municipalities of Arecibo, Camuy and Hatillo. The total population is 155,005 or about 4 percent of the total population of Puerto Rico.

Income Characteristics

The 1997 HUD estimated median family income for the PMSA is \$11,700. According to the 1990 Census, of the 36 populated census tracts used for analysis, only five are LMI census tracts, and all are located in the Arecibo municipality. Camuy and Hatillo have no LMI census tracts.

Housing Characteristics

There are 36,549 owner-occupied housing units in the PMSA representing approximately 5 percent of all owner-occupied housing units in Puerto Rico. Of the owner-occupied units, 3,081

are located in LMI census tracts. They represent about 2 percent of all such units in the Puerto Rico assessment areas.

Labor, Employment and Economic Characteristics

The 1997 unemployment rate for PMSA 0470 was 15.8 percent. As of March 1998, the rate in the PMSA was 16.3 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

Overall, the geographic distribution of loans in the Arecibo PMSA is generally consistent with the bank's performance in Puerto Rico based on performance in the municipality of Arecibo. This municipality contains all of the housing units in LMI census tracts. For details see Exhibits 17 through 19.

Home Improvement Loans

On a demand-adjusted basis, home improvement lending was 1.9 times greater in LMI census tracts than non-LMI census tracts.

Home Purchase Loans and Refinancings

Home purchase and refinance activity was 1.9 times greater in LMI census tracts than in non-LMI tracts.

Small Business Loans

During the examination period, the bank originated 1,035 or 5 percent of its small business loans in this PMSA. One-hundred thirty-nine or 13 percent of the loans were originated in moderate-income census tracts. The Arecibo PMSA contains 4 percent of the bank's branches and 4 percent of the population in Puerto Rico.

Borrower Characteristics

Overall, the distribution of loans among borrowers of different income levels and businesses of different sizes in the Arecibo PMSA is generally consistent with the bank's performance in Puerto Rico. For details, see Exhibits 20 through 22.

Home Improvement Loans

For the examination period, 36 loans or 7 percent of home improvement loans originated by the bank and its affiliates in this PMSA were to LMI borrowers.

Home Purchase Loans and Refinancings

Of the home purchase loans and refinancings originated by the bank and its affiliates during the examination period, none were originated to LMI borrowers.

Lending to Small Businesses

Eighty-six percent of the bank's small business loans originated during the examination period were for amounts of \$100 thousand or less. The average size of such loans is \$33,757. Of all small business loans originated in the PMSA, 67 percent were to businesses with GAR of \$1 million or less.

Community Development Lending

Banco Popular's community development lending in PMSA 0470 (Arecibo, PR) totaled \$100 thousand.

INVESTMENT TEST

Qualified investments in the Arecibo PMSA totaled \$323 thousand.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular branches are readily accessible to all portions of the PMSA. Of the seven branches in the PMSA, one was located in an LMI census tract. This compares with the demographics of the PMSA where 14 percent of the census tracts are LMI and 10 percent of the population resides in LMI tracts.

Opening and Closing of Branches

No branches were opened or closed in this PMSA.

NON-METROPOLITAN STATISTICAL AREAS

NON-MSA 1 (CONTIGUOUS NON-MSA MUNICIPALITIES)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 1

Performance in the contiguous non-MSA municipalities was consistent with the bank's overall performance in Puerto Rico based on the geographic distribution of loans, the distribution of loans among customers of different income levels and businesses of different sizes, and the accessibility of the bank's delivery systems.

DESCRIPTION OF BANK'S OPERATIONS

As of March 31, 1998, the bank maintained 25, or 13 percent, of its retail branches in the contiguous non-MSA municipalities. The branches contained \$547 million in deposits, or 6 percent of the bank's total deposits in Puerto Rico. During the examination period, Banco Popular and its affiliates originated 1,461 home improvement loans, 542 home purchase loans and refinancings, and 2,188 small business loans. Such activity represents approximately 8 percent of all home purchase loans and refinancings originated by the bank and its affiliates in the Puerto Rico assessment areas and 12 percent of all such home improvement and small business loans.

DESCRIPTION OF THE ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor and HUD.

Demographic Characteristics

This assessment area consists of 20 contiguous non-MSA municipalities including Adjuntas, Aibonito, Arroyo, Barranquitas, Ciales, Coamo, Guayama, Isabel, Jayuya, Lares, Las Marias, Maunabo, Maricao, Orocovi, Patillas, Quebradillas, Salinas, San Sabastian, Santa Isabel and Utuado. According to the 1990 Census, the total population of the municipalities is 477,642 or approximately 14 percent of the total population of Puerto Rico.

Income Characteristics

The 1997 HUD estimated median family income for all non-MSA municipalities is \$10,600. Based on the 1990 Census, there are 110 block-numbering areas ("BNAs") in the assessment area. Of the total BNAs, none are low-income and only eight are moderate-income. Fifteen of the 20 municipalities have no moderate-income BNAs.

Housing Characteristics

There are 101,668 owner-occupied housing units in the municipalities representing approximately 13 percent of all owner-occupied housing units in Puerto Rico. Approximately 5 percent or 4,844 owner-occupied housing units are located in LMI BNAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

Overall, the geographic distribution of loans is generally consistent with the bank's performance in Puerto Rico. Of the 20 municipalities in the assessment area, only Utuado, Adjuntas, Lares and Maricao have a sufficient number of owner-occupied housing units in moderate-income BNAs to conduct a meaningful demand-adjusted analysis of the geographic distribution of home improvement loans, home purchase loans and refinancings. Therefore, geographic distribution conclusions are based on activity in those four municipalities only. For details, see Exhibits 17 through 19.

Home Improvement Loans

On a demand-adjusted basis for the four municipalities used for analysis, home improvement lending was 1.2 times greater in moderate-income BNAs than in non-moderate-income BNAs.

Home Purchase Loans and Refinancings

On a demand-adjusted basis for the four municipalities used for analysis, home purchase lending and refinancing activity was 1.8 times greater in non-moderate-income BNAs than in moderate-income BNAs.

Small Business Loans

During the examination period, the bank originated 2,188 or 11 percent of its small business loans in the assessment area. Fifty-eight loans or 3 percent of small business loans were originated in LMI BNAs. This assessment area contains 13 percent of the bank's branches and 14 percent of the population in Puerto Rico.

Borrower Characteristics

Overall, the distribution of loans among borrowers of different income levels and businesses of different sizes is generally consistent with the bank's performance in Puerto Rico. For details, see Exhibits 20 through 22.

Home Improvement Loans

For the examination period, 5 percent of home improvement loans originated by the bank and its affiliates in this assessment area were to LMI borrowers.

Home Purchase Loans and Refinancings

Of the home purchase loans and refinancings originated by the bank and its affiliates in this assessment area during the examination period, none were originated to LMI borrowers.

Lending to Small Businesses

Ninety percent of the bank's small business loans originated during the examination period were for amounts of \$100 thousand or less. Of all small business loans originated, 79 percent were to businesses with GAR of \$1 million or less.

Community Development Lending

Banco Popular's community development lending in Non-MSA 1 totaled \$5.1 million. Lending activities provided for the construction of 372 affordable housing units. For details see Exhibit 23.

INVESTMENT TEST

Qualified investments in Non-MSA 1 totaled \$219 thousand. For details see Exhibit 28.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular branches are reasonably accessible to all portions of the assessment area. Of the 25 branches in the assessment area, none were located in a moderate-income BNA. This compares with the demographics of the area where 9 percent of the BNAs are moderate-income and 6 percent of the population resides in moderate-income BNAs.

Opening and Closing of Branches

During the examination period, Banco Popular opened three new offices and consolidated one branch into an existing branch six blocks away.

NON-MSA 2 (MUNICIPALITIES OF GUANICA AND LAJAS)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 2

Lending activity is not sufficient to reach meaningful conclusions regarding the bank's performance in this assessment area.

DESCRIPTION OF BANK'S OPERATIONS

As of March 31, 1998, Banco Popular maintained one branch in the municipality of Lajas to serve both municipalities, Guanica and Lajas, in this assessment area. The branch contained \$3 million in deposits. During the examination period, Banco Popular and its affiliates originated 105 home improvement loans, 35 home purchase loans and refinancings, and 147 small business loans. Deposit and lending activity represent less than 1 percent of the bank's total such activity in Puerto Rico.

DESCRIPTION OF THE ASSESSMENT AREA

According to the 1990 Census, the total population of the two municipalities is 43,255, less than 1 percent of the total population of Puerto Rico. Of the 11 BNAs in the assessment area, none are low-income and two are moderate-income. Both moderate-income BNAs are located in Guanica. There are approximately 10 thousand owner-occupied housing units of which approximately 1,000 are located in a moderate-income BNA. The total number of housing units represents less than 1 percent of all housing units in Puerto Rico.

NON-MSA 3 (MUNICIPALITY OF RINCON)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 3

Lending activity is not sufficient to reach meaningful conclusions regarding the bank's performance in this assessment area.

DESCRIPTION OF BANK'S OPERATIONS

As of March 31, 1998, the bank maintained one retail branch in the municipality of Rincon containing \$13 million in deposits. During the examination period, Banco Popular and its affiliates originated 20 home improvement loans, 11 home purchase loans and refinancings, and 72 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity in Puerto Rico.

DESCRIPTION OF THE ASSESSMENT AREA

According to the 1990 Census, the municipality of Rincon has a population of 12,213. There are 3,088 owner-occupied housing units in the municipality. Of the three BNAs in the municipality, none are LMI.

NON-MSA 4 (MUNICIPALITY OF CULEBRA)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 4

Lending activity is not sufficient to reach meaningful conclusions regarding the bank's performance in this assessment area.

DESCRIPTION OF BANK'S OPERATIONS

As of March 31, 1998, the bank maintained one retail branch in the municipality of Culebra containing \$8.7 million in deposits. During the examination period, Banco Popular and its affiliates originated 17 home improvement loans, 5 home purchase loans and refinancings, and 5 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity in Puerto Rico.

DESCRIPTION OF THE ASSESSMENT AREA

The municipality of Culebra, an island off the eastern coast of Puerto Rico, is primarily a vacation area. According to the 1990 Census, the population of the municipality is 1,542. There are 402 owner-occupied housing units on Culebra. The entire island is considered upper-income.

NON-MSA 5 (MUNICIPALITY OF VIEQUES)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 5

Lending activity and is not sufficient to reach meaningful conclusions regarding to the bank's performance in the assessment area.

DESCRIPTION OF BANK'S OPERATIONS

As of March 31, 1998, the bank maintained one retail branch in the municipality of Vieques containing \$20 million in deposits. During the examination period, Banco Popular and its affiliates originated 61 home improvement loans, no home purchase loans and refinancings, and 43 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity in Puerto Rico.

DESCRIPTION OF THE ASSESSMENT AREA

The municipality of Vieques is an island off the eastern coast of Puerto Rico. According to the 1990 Census, the population of the municipality is 8,526. There are 2,096 owner-occupied housing units in the municipality. Of the three BNAs on the island, one is moderate-income. It contains 638 owner-occupied housing units.

EXHIBIT 11

Puerto Rico Demographic Summary					
	Census Tracts by Income Level				Total
	Low	Moderate	Middle	Upper	
Census Tracts for Analysis*	20	178	389	211	798
% of Tracts for Analysis	3%	22%	49%	26%	100%
Total Population	72,664	716,378	1,853,429	879,384	3,521,855
% of Total Population	2.06%	20.34%	52.63%	24.97%	100%
Owner-occupied Housing Units	4,775	148,941	404,854	201,688	760,258
% of Owner-occupied Units	0.6%	19.59%	53.25%	26.56%	100%
Rental-occupied Housing Units	17,730	64,674	138,623	73,639	294,666
% of Rental-occupied Units	6.02%	21.95%	47.04%	24.99%	100%

* 57 low-income census tracts containing zero housing or zero population were not used in the analysis.

EXHIBIT 12

Total Loan Originations

Puerto Rico Assessment Areas

April 1, 1997 – March 31, 1998

Loan Type	#	%	\$ ('000s)	%
HMDA Home Purchase	4,766	22.6	\$ 409,787	56.4
HMDA Refinance	2,402	11.4	169,786	23.4
HMDA Home Improvement	13,954	66.0	146,519	20.2
Total HMDA	21,122	51.0	\$ 726,092	32.1
Total Small Business	20,060	48.4	1,522,067	67.2
Total Small Farm	230	.6	16,764	.7
TOTAL LOANS	41,412	100.0	\$2,264,923	100.0

EXHIBIT 13

PMSA 7440 (San Juan-Bayamon, PR) Demographic Summary					
	Census Tracts by Income Level				Total
	Low	Moderate	Middle	Upper	
Census Tracts for Analysis*	14	121	141	136	412
% of Tracts for Analysis	3%	29%	35%	33%	100%
Total Population	54,392	518,285	699,976	563,590	1,836,243
% of Total Population	2.96%	28.23%	38.12%	30.69%	100%
Owner-occupied Housing Units	3,478	108,642	151,535	130,778	394,433
% of Owner-occupied Units	1%	28%	38%	33%	100%
Rental-occupied Housing Units	13,153	45,174	56,971	50,366	165,664
% of Rental-occupied Units	7.94%	27.27%	34.39%	30.40%	100%

* 17 low-income census tracts containing zero housing or zero population were not used in the analysis.

EXHIBIT 14

MSA 6360 (Ponce, PR) Demographic Summary					
	Census Tracts by Income Level				Total
	Low	Moderate	Middle	Upper	
Census Tracts for Analysis*	1	17	34	25	77
% of Tracts for Analysis	1%	22%	44%	33%	100%
Total Population	5,525	59,393	170,248	107,483	342,649
% of Total Population	1.61%	17.33%	49.69%	31.37%	100%
Owner-occupied Housing Units	446	10,634	35,391	23,759	70,230
% of Owner-occupied Units	1%	15%	50%	34%	100%
Rental-occupied Housing Units	1,244	6,420	10,594	7,589	25,847
% of Rental-occupied Units	4.81%	24.84%	40.99%	29.36%	100%

* Five low-income census tracts containing zero housing or zero population were not used in the analysis.

EXHIBIT 15

MSA 4840 (Mayaguez, PR) Demographic Summary					
	Census Tracts by Income Level				Total
	Low	Moderate	Middle	Upper	
Census Tracts for Analysis*	4	7	35	15	61
% of Tracts for Analysis	7%	11%	57%	25%	100%
Total Population	9,631	25,410	146,685	55,381	237,107
% of Total Population	4.06%	10.72%	61.86%	23.36%	100%
Owner-occupied Housing Units	851	6,018	33,965	12,096	52,930
% of Owner-occupied Units	2%	11%	64%	23%	100%
Rental-occupied Housing Units	2,330	2,487	12,045	5,122	21,984
% of Rental-occupied Units	10.60%	11.31%	54.79%	23.30%	100%

* 16 low-income census tracts containing zero housing or zero population were not used in the analysis.

EXHIBIT 16

MSA 0060 (Aguadilla, PR) Demographic Summary					
	Census Tracts by Income Level				Total
	Low	Moderate	Middle	Upper	
Census Tracts for Analysis*	0	3	19	4	26
% of Tracts for Analysis	0%	12%	73%	15%	100%
Total Population	0	8,461	105,130	14,581	128,172
% of Total Population	0%	6.60%	82.02%	11.38%	100%
Owner-occupied Housing Units	0	1,805	23,199	2,882	27,886
% of Owner-occupied Units	0%	6%	83%	11%	100%
Rental-occupied Housing Units	0	1,103	7,127	1,496	9,726
% of Rental-occupied Units	0%	11.34%	73.28%	15.38%	100%

- Four low-income census tracts containing zero housing or zero population were not used in the analysis.

EXHIBIT 17

DEMAND-ADJUSTED ANALYSIS FOR HOME IMPROVEMENT LOANS IN PUERTO RICO

EXHIBIT 17 (CONTINUED)

DEMAND-ADJUSTED ANALYSIS FOR HOME IMPROVEMENT LOANS IN PUERTO RICO

EXHIBIT 18

DEMAND-ADJUSTED ANALYSIS FOR HOME PURCHASE AND REFINANCE LOANS IN PUERTO RICO

EXHIBIT 18 CONTINUED)

DEMAND-ADJUSTED ANALYSIS FOR HOME PURCHASE AND REFINANCE LOANS IN PUERTO RICO

EXHIBIT 19

DISTRIBUTION OF SMALL BUSINESS LOANS ACROSS CENSUS TRACT INCOME LEVELS

EXHIBIT 19
(CONTINUED)

**DISTRIBUTION OF SMALL
BUSINESS LOANS ACROSS
CENSUS TRACT INCOME LEVELS
IN PUERTO RICO**

EXHIBIT 20

DISTRIBUTION OF HOME IMPROVEMENT LOANS BY BORROWER INCOME LEVELS

EXHIBIT 20
(CONTINUED)

**DISTRIBUTION OF HOME
IMPROVEMENT LOANS BY
BORROWER INCOME LEVELS IN
PUERTO RICO**

EXHIBIT 21

DISTRIBUTION OF HOME PURCHASE AND REFINANCE LOANS BY BORROWER INCOME LEVELS IN PUERTO RICO

EXHIBIT 21 (CONTINUED)

DISTRIBUTION OF HOME PURCHASE AND REFINANCE LOANS BY BORROWER INCOME LEVELS IN PUERTO RICO

EXHIBIT 22

DISTRIBUTION OF SMALL BUSINESS LOANS BY SIZE OF BUSINESS IN PUERTO RICO

EXHIBIT 22 CONTINUED

**DISTRIBUTION OF SMALL
BUSINESS LOANS BY SIZE OF
BUSINESS IN PUERTO RICO**

EXHIBIT 22 CONTINUED

**DISTRIBUTION OF SMALL
BUSINESS LOANS BY SIZE OF
BUSINESS IN PUERTO RICO**

EXHIBIT 22 CONTINUED

DISTRIBUTION OF SMALL BUSINESS LOANS BY SIZE OF BUSINESS IN PUERTO RICO

EXHIBIT 23

PUERTO RICO COMMUNITY DEVELOPMENT LENDING

EXHIBIT 24

Community Development Lending
Activity - PMSA 7440 (San Juan
-Bayamon, PR)

Exhibit 25-

**Community Development Lending Activity - MSA
6360 (Ponce, PR)**

Exhibit 26
- Community Development Lending Activity - MSA
4840 (Mayaguez, PR)

AND

Exhibit 27 –
Community Development Lending Activity - MSA
0060 (Aguadilla, PR)

EXHIBIT 28

Puerto Rico Qualified Investment Activity

MSA	Commitment ('000s)	%
Puerto Rico (island-wide)	\$63,171	76%
PMSA 7440 (San Juan-Bayamon, PR)	\$14,769	18%
MSA 6360 (Ponce, PR)	\$857	1%
MSA 4840 (Mayaguez, PR)	\$402	0%*
MSA 0060 (Aguadilla, PR)	\$1,106	1%
PMSA 1310 (Caguas, PR)	\$2,589	3%
PMSA 0470 (Arecibo, PR)	\$323	0%*
Non-MSA Area 1	\$219	0%*
TOTALS	\$83,436	100%
Affordable Housing	\$52,760	63%
Community Service	\$1,745	2%
Economic Development	\$28,931	35%

* Less than 1 percent

INSERT CHARTS

**Exhibit 29 - Qualified Investment Activity - PMSA
7440 (San Juan-Bayamon, PR)**

**Exhibit 30 - Qualified Investment Activity - MSA
6360 (Ponce, PR)**

**Exhibit 31 - Qualified Investment Activity - MSA
4840 (Mayaguez, PR)**

**Exhibit 32 - Qualified Investment Activity - MSA
0060 (Aguadilla, PR)**

EXHIBIT 33

Branch Locations in Puerto Rico

As of March 31, 1998

County/MSA	# of Branches	# in LMI Areas
San Juan	41	11
Yabucoa	2	0
Manati	1	1
Corozal	1	1
Morovis	1	1
Vega Baja	3	1
Toa Baja	3	1
Naranjito	2	1
Canovanas	1	0
Comerio	1	1
Fajardo	3	2
Toa Alta	1	0
Barceloneta	2	2
Naguabo	1	1
Guaynabo	11	3
Humacao	7	0
Catano	0	0
Loiza	1	0
Dorado	1	1
Bayamon	8	1
Vega Alta	1	0
Florida	1	1
Aguas Buenas	1	1
Juncos	2	0
Rio Grande	2	0
Carolina	11	0
Luquillo	2	0
Ceiba	1	0
Las Piedras	1	0
Trujillo Alto	2	0
Total PMSA 7440 (San Juan-Bayamon)	115	30
Ponce	9	4

(CONTINUED)

EXHIBIT 33 (CONTINUED)

Branch Locations in Puerto Rico

County/MSA	# of Branches	# in LMI Areas
Juana Diaz	1	0
Villalba	1	0
Guayanilla	1	0
Yauco	2	0
Peñuelas	1	0
Total MSA 6360 (Ponce)	15	4
Mayaguez	4	1
Cabo Rojo	2	0
Sabana Grande	0	0
San German	2	0
Añasco	1	0
Hormigueros	3	0
Total MSA 4840 (Mayaguez)	12	1
Aguadilla	4	1
Aguada	1	0
Moca	1	0
Total MSA 0060 (Aguadilla)	6	1
San Lorenzo	1	0
Caguas	6	1
Cayey	2	1
Cidra	1	0
Gurabo	1	0
Total PMSA 1310 (Caguas)	11	2
Arecibo	4	1
Camuy	1	0
Hatillo	2	0
Total PMSA 0470 (Arecibo)	7	1
Utado	1	0
Adjuntas	1	0
Lares	1	0
Maricao	1	0
San Sebastian	2	0
Aibonito	1	0

(CONTINUED)

EXHIBIT 33 (CONTINUED)		
Branch Locations in Puerto Rico		
Guayama	2	0
Isabela	2	0
Orocovis	1	0
Santa Isabel	1	0
Arroyo	1	0
Barranuitas	2	0
Ciales	1	0
Coamo	1	0
Jayuya	1	0
Las Marias	1	0
Maunabo	0	0
Quebradillas	2	0
Salinas	2	0
Patillas	1	0
Non-MSA 1 Total	25	0
Guanica	0	0
Lajas	1	0
Non-MSA 2 Total	1	0
Rincon	1	0
Non-MSA 3 Total	1	0
Culebra	1	0
Non-MSA 4 Total	1	0
Vieques	1	1
Non-MSA 5 Total	1	1
Puerto Rico Total	195	40

UNITED STATES VIRGIN ISLANDS

CRA Rating for the USVI: Outstanding

The Lending Test is rated: Outstanding

The Investment Test is rated: High Satisfactory

The Service Test is rated: High Satisfactory

The bank's performance in the USVI is rated outstanding, based on the following summary conclusions:

LENDING TEST

- The bank's lending activity shows good responsiveness to the credit needs of its assessment area.
- The geographic distribution of loans reflects excellent loan penetration throughout the assessment areas.
- There is a good distribution of loans among borrowers of different income levels and businesses of different sizes.
- There is an outstanding level of community development lending.

INVESTMENT TEST

- Investment opportunities were limited during the examination period; therefore, management placed additional emphasis on community development lending.

SERVICE TEST

- Banco Popular's delivery systems were readily accessible to all portions of the bank's assessment areas, and business hours and services do not vary in a way that inconveniences certain portions of the assessment areas.
- Banco Popular provided a high level of community development services.

DESCRIPTION OF BANCO POPULAR'S OPERATIONS IN THE USVI

Banco Popular, headquartered in San Juan, Puerto Rico, is a full-service commercial bank focusing on retail financial services and commercial services to small and middle market businesses. The bank, organized under the banking laws of the Commonwealth of Puerto Rico, is a wholly owned subsidiary of Popular, Inc. (previously BanPonce Corporation), San Juan, Puerto Rico. As of March 31, 1998, the bank had total assets of \$16.7 billion, net loans and leases of \$9.3 billion, and total deposits of \$10.7 billion. The holding company had total consolidated assets of approximately \$20 billion as of March 31, 1998.

As of the examination date, August 3, 1998, Banco Popular operated seven retail branches in the USVI containing \$503 million in deposits. Approximately \$300 million or 3 percent of the bank's assets are in the USVI.

Banco Popular is one of the three primary financial institutions operating in the USVI; the others are Chase Manhattan Bank and Bank of Nova Scotia.

Banco Popular's prior CRA examination was conducted as of June 2, 1997, at which time the bank's activity in the USVI was rated outstanding. There are no legal or financial impediments that would affect the bank's ability to meet the credit needs of its community.

DESCRIPTION OF ASSESSMENT AREAS

Banco Popular has two assessment areas in the USVI, the islands of St. Thomas and St. Croix. The assessment areas are in compliance with the requirements of 12 CFR 228.41 of Regulation BB and do not arbitrarily exclude any LMI geographies. There were no changes in the bank's USVI assessment areas since the prior examination.

The following demographic and economic information was obtained from publicly available sources that include the Office of Insular Affairs ("OIA") of the U.S. Department of the Interior, the U.S. Department of Commerce Bureau of the Census, 1990, the U.S. Department of Housing and Urban Development ("HUD"), the USVI Bureau of Economic Research, and the USVI Government Development Bank.

Demographic Characteristics

According to the 1990 Census, the total population of the bank's USVI assessment areas is approximately 98 thousand, about evenly divided between St. Thomas and St. Croix. The population in the USVI assessment areas represents less than 1 percent of the total population residing in the assessment areas under evaluation at this examination.

Income Characteristics

Income levels in the USVI are higher than in Puerto Rico. The 1997 HUD estimated median family income was \$36,300 for St. Thomas and \$27,700 for St. Croix.

Of the 16 subdistricts used for analysis, three, or 19 percent, are low- and moderate- income ("LMI") and located in St. Croix. There are no LMI subdistricts in St. Thomas. In the USVI, the Census Bureau uses subdistricts as the equivalent of census tracts and block numbering areas ("BNAs"). The Virgin Islands government created census subdistricts in 1979, and the Census Bureau first used them for the 1980 Census.

Housing Characteristics

Based on the 1990 Census, there are 37,370 housing units in the USVI assessment areas, of which 13,668 or 37 percent are owner-occupied. Approximately 45 percent of housing units are renter-occupied, and 18 percent are vacant. Vacant housing units generally refer to vacation homes that are not occupied year-round. Many rental units are apartments that are part of private homes. Public housing represents about 5,000 rental units.

High housing costs and low borrower income levels have resulted in the low level of owner-occupancy in the USVI. According to the USVI Bureau of Economic Research, the average cost of a home in St. Thomas, in 1996, the most recent year for which data is available, is \$194,213, and in St. Croix, \$156,614. The average median housing price is \$175,413. Comparing these costs to median income levels, it is apparent that owner-occupied housing is generally beyond the reach of LMI families. In order to provide such housing opportunities, the Virgin Island Housing Finance Authority ("VIHFA") administers a HOME Program that uses HUD funds to subsidize the cost of the home and the down payment. About 85 units were built in 1997, mostly in St. Croix where land costs are lower. The VIHFA has established income limits, based on family size, for qualified LMI buyers.

According to community contacts made during this examination, more lenders are needed to provide mortgage loan products with reduced down payment requirements. There is also a need for home improvement loans to repair deteriorated housing and expand housing units to include rental space. In the USVI, these needs are usually financed through refinance loans.

Labor, Employment and Economic Characteristics

Tourism is the most important factor of the economy of the Virgin Islands; however, manufacturing is an important part of the St. Croix economy. Employment opportunities are found mostly in the wholesale and retail sectors, as well as government and construction. Two major hurricanes, Marilyn in 1995 and Bertha in 1996, caused a sharp decline in the tourist trade, negatively impacting service and retail jobs. This was somewhat offset by an increase in construction employment because of the need to rebuild destroyed housing, offices and infrastructure. For 1997, the most recent year for which information is available, the unemployment rate in the USVI was 4.9 percent.

Community contacts also spoke of a need for increased small business lending, especially small dollar amount loans for the start-up and operation of home-based industries.

SCOPE OF EXAMINATION

The data used to evaluate Banco Popular's CRA performance covered the period April 1, 1997, through March 31, 1998. Loan products evaluated included home purchase and refinance mortgage loans (which were evaluated together), home improvement loans and small business loans. Other loans that qualified as community development loans and were originated between June 1, 1997 and March 31, 1998 were also evaluated. In addition, bank investments, grants and services qualifying as community development were included in the examination.

Management supplied data for mortgage, home improvement and small business loans. Reporting requirements for mortgage loans under Regulation C - Home Mortgage Disclosure Act ("HMDA") are not applicable with respect to dwellings in U.S. territories. Because such reporting is not required, the bank's performance cannot be compared with the aggregate performance of other lenders in the USVI, as it was in the Puerto Rico evaluation.

For the evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 Census data. Determination of the distribution of loans to borrowers of different income levels was based on 1997 HUD estimated median family income data.

In evaluating the geographic distribution of the bank's loans, a demand-adjusted analysis was performed for mortgage and home improvement loans, comparing the proportion of loans per thousand owner-occupied housing units in LMI and non-LMI subdistricts. As information regarding the number of small business establishments located in LMI and non-LMI subdistricts was unavailable, a demand-adjusted analysis was not conducted for small business loans.

Only those loans originated during the 1997 portion of the examination period were used in evaluating the geographic distribution of loans. Subdistrict information was not yet available for 1998 loans. Loans originated in the 1997 portion of the examination period represent 70 percent of all loans originated during the examination period. The evaluation of lending activity and borrower characteristics included all loan originations during the examination period.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE USVI

LENDING TEST

The bank's performance under the lending test is rated outstanding. While the bank's performance regarding the geographic distribution of loans was excellent and lending activity and borrower characteristic performance were good, the level of community development lending, given the bank's presence in the USVI, was exceptional.

Lending Activity

Lending in the USVI reflects a good response to assessment area credit needs. During the examination period, 330 loans totaling approximately \$37 million were originated, consisting of 180 housing-related loans and 150 small business loans. Of the housing-related loans originated, 70 percent were home purchase loans and refinancings. Seventy-three percent of loan originations were in St. Thomas. Lending activity in the USVI assessment areas represents less than 1 percent of the bank's total lending activity being evaluated at this examination.

On an annualized basis, total lending volume increased somewhat from the prior examination, but the distribution of loans by product type changed significantly. At the prior examination, 29 percent of housing-related loans were home purchase loans and refinancings. Most housing-related lending activity was concentrated in home improvement lending because of the severe impact of the hurricanes in 1995 and 1996. The hurricanes also impacted the volume of small business loans at the earlier examination since the Small Business Administration ("SBA") was making direct low-interest loans during the recovery period. Therefore, as conditions returned to normal during this examination period, the bank's small business lending increased dramatically, on an annualized basis. For details see Exhibits 34 through 40.

Geographic Distribution of Lending

Overall, the analysis demonstrates excellent activity among the various income geographies in the bank's assessment areas. For details see Exhibits 35 through 37.

Home Improvement Loans

The bank's demand-adjusted home improvement lending activity was excellent. The overall demand-adjusted level of home improvement loan originations was 3.9 times greater in LMI subdistricts than in non-LMI subdistricts.

Home Purchase Loans and Refinancings

On a demand-adjusted basis, home purchase and refinance lending was excellent. Overall, the demand-adjusted level of home purchase and refinance loan originations was 3.5 times greater in LMI subdistricts than in non-LMI subdistricts.

Small Business Loans

Overall, Banco Popular's performance with regard to the geographic distribution of small business lending was good. Sixty-nine percent of the bank's small business loans were made in St. Thomas where five, or 71 percent, of the bank's branches in the USVI are located. In St. Croix, the distribution of small business lending was excellent. Fifty percent of all business loans were originated in LMI subdistricts.

Borrower Characteristics

The distribution of loans among borrowers of different income levels and businesses of different sizes was good, given the income levels of borrowers and housing costs in the USVI. For details see Exhibits 38 through 40.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflects an acceptable distribution, given the low income levels of borrowers in the USVI relative to housing costs, as previously discussed. For the examination period, 7 percent of home improvement loan originations were to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects an adequate distribution, given the high housing costs and low income levels of borrowers in the USVI. For the examination period, 6 percent of loan originations were to LMI borrowers.

This level of lending to LMI borrowers appears to result from the significant gap between housing costs and income levels of borrowers, which generally precludes LMI borrowers from the housing market. As noted in the description of the assessment area on page BB110, the average median housing price in the USVI is \$175,413. LMI families in USVI, whose income level averages \$25,600 or less, would generally be unable to finance the purchase of a home in this market. Furthermore, the high cost of hazard insurance significantly adds to the monthly mortgage loan payment.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes in the USVI assessment areas was excellent. Seventy percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$37,467, an amount that would typically meet the credit needs of smaller businesses. Of all small business loans in the assessment areas, 41 percent of loans originated during the examination period were to businesses with gross annual revenues ("GAR") of \$1 million or less.

Community Development Lending

Banco Popular's community development lending performance in the USVI was outstanding. During the examination period, community development loan commitments totaled \$9 million, of which \$4.3 million or 48 percent were new loan commitments originated since the prior examination. Community development lending was higher at the prior examination; however, the earlier examination covered a 22-month period while this examination covers only 12 months. Also, at the prior examination there was an immediate need for credit in response to the widespread devastation caused by Hurricanes Marilyn and Bertha. Many of these commitments have been reduced or repaid.

Community development lending, which benefits both St. Thomas and St. Croix, was almost evenly divided between economic development and affordable housing initiatives. Economic development activity totaled \$4.7 million or 52 percent of total activity and consisted of a loan to assist the government in restoring water and power to the USVI after severe hurricane damage in 1995. Affordable housing activity totaled \$4.4 million and included loans to the VIHFA and to a contractor who will construct 172 units of affordable housing under the VIHFA's Affordable Housing Program. As previously noted, affordable housing was identified as the most critical credit need in the bank's assessment areas. For details see Exhibit 41.

Innovative and Flexible Lending Practices

Banco Popular made limited use of innovative and flexible lending practices to address the credit needs of the USVI assessment areas. Although three flexible mortgage loan products are offered throughout the bank's assessment areas, the bank made only three loans under these programs. Regarding small business lending, Banco Popular makes use of flexible SBA lending programs.

Farmers Home Administration ("FHA")

FHA mortgage loans are used to purchase or refinance owner-occupied one- to four-family homes and FHA-approved condominiums. FHA allows a higher debt-to-income ratio and as little as 3 percent down payment. The bank discounts the market interest rate by one point for all FHA borrowers. During the examination period, Banco Popular originated one FHA loan.

Veterans Administration ("VA")

As with FHA, VA mortgage loans are used to purchase or refinance owner-occupied one- to four-family homes and VA-inspected condominiums. VA loans feature higher debt-to-income ratios, zero down payment, and no mandatory mortgage insurance. The bank also reduces the market interest rate by one point for all VA borrowers. Two VA loans were originated during the examination period.

SBA Loans

Banco Popular offers the SBA's "Low Doc" program in its USVI assessment areas. The program, designed for loans in amounts of \$100 thousand or less, requires only a one-page application form, offers rapid turnaround time and can be used for start-up businesses. The maximum interest rate under the program is prime plus 2.75 percent; however, Banco Popular charges only prime plus 2 percent. Seven loans totaling \$303 thousand were originated during the examination period.

INVESTMENT TEST

Banco Popular's performance under the investment test is rated high satisfactory. During the examination period, the availability of qualified investments to which the bank had access was severely limited. Therefore, management's strategy was to focus on meeting community development needs through expanded community development lending initiatives, as discussed under the lending test. This strategy provided the bank with an opportunity to assist in meeting affordable housing needs even though investment alternatives were unavailable. Management continues to be proactive in seeking qualified investment opportunities in the USVI.

During the examination period, the bank made various charitable contributions that are considered qualified investments. Such activity totaled \$10,372 and consisted of donations to organizations supporting community service projects and programs.

SERVICE TEST

The bank's performance under the service test is rated high satisfactory.

Accessibility of Delivery Systems

Banco Popular's delivery systems, including the branch network and alternative delivery systems such as automated teller machines ("ATMs"), telephone banking and computer banking, were readily accessible to all portions of the bank's assessment areas. As of March 31, 1998, Banco Popular operated seven retail branches in its USVI assessment areas, of which five were located in St. Thomas and two in St. Croix. The bank also maintained ten bilingual ATMs in its branches, which are connected to nationwide networks and available 24 hours a day.

Branch locations were well dispersed throughout the bank's assessment areas. The St. Thomas branches serve the communities of Charlotte Amalie, Ft. Milner, Red Hook and Sugar Estate. The branches in St. Croix are located in Christiansted and Sunny Isle. The Christiansted branch is located in a moderate-income subdistrict.

In addition to the branch network and ATMs, Banco Popular employs alternative delivery systems to enhance the distribution of services throughout its assessment areas. They include:

Telephone Banking

Banco Popular offers telephone services that allow customers to obtain deposit and loan balance information as well as access to the bank's "Telepago" and "Teleprestamo" products. Telepago is an automated bill paying service allowing customers to make utility payments as well as loan and credit card payments. Teleprestamo is a consumer loan application service. Credit officers staff the service and, on average, an applicant can expect a credit decision in 21 minutes. Although mortgage loan applications are not accepted through Teleprestamo, application forms can be requested. Telephone banking services are available to consumers and businesses.

Computer Banking

With free software provided by Banco Popular, customers can conduct bank transactions with their personal computers. They can obtain information about account balances, execute payments and transfer funds. Customers may also download financial information to spreadsheets or financial programs, and communicate with the bank by e-mail. The bank also makes a version of this service available to businesses. Banco Popular also maintains an informational site on the Internet.

Changes in Branch Locations

Since the prior examination, Banco Popular did not open or close any branches in its USVI assessment areas.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

The bank's business hours were reasonable and did not vary in a way that inconveniences certain portions of its assessment areas. Extended evening hours were available at all branches on Fridays and government paydays. Walk-up windows provide extended hours every morning. In addition, Banco Popular offers Saturday hours at two offices in St. Thomas and one in St. Croix.

Banco Popular offers a full range of deposit and credit services and products at all branches. Mortgage and business loan applications are available at all branches, and applicants may initiate the application process by phone from all branches or apply in person at either the main branch in St. Thomas or the Christiansted branch in St. Croix. The bank's consumer credit applications can also be initiated by phone or at specified branches on each island.

Community Development Services

Banco Popular provides a relatively high level of community development services in its USVI assessment areas, including business seminars and technical assistance to various community development organizations. During the examination period, the bank sponsored or participated in two small business seminars through the University of the Virgin Islands and one presentation about women in business. Management and staff served as chairpersons or committee members of six organizations that support community and business development in the USVI including the

Virgin Islands Housing Authority, the Family Self-Sufficiency Program, and the University of the Virgin Islands Small Business Development Center. The bank's community development service activity benefits both islands in the USVI assessment area.

Also, Banco Popular offers a variety of community development products and services including low-cost check cashing for non-customers and free in-branch bill payment services whereby the bank accepts payments on behalf of companies and agencies such as telephone, electric and cable companies. In addition, the bank offers secured credit cards that enable applicants, who do not otherwise qualify for unsecured credit, an opportunity to establish retail credit.

In order to provide financial services to those without banking relationships, Banco Popular provides Access 24, a service whereby employees of various businesses participating in a direct deposit system through Banco Popular can access some banking services without having an account relationship. Employees do not receive payroll checks, but can access their wages and all of the bank's electronic services, including telephone bill payment, without charge. In addition, Access 24 customers can purchase checks and money orders at a reduced fee and make unlimited ATM transactions for a \$2 monthly service charge.

NON-METROPOLITAN AREAS

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ST. THOMAS

Overall performance in St. Thomas was good, based on the following summary conclusions:

- The geographic distribution of loans reflects excellent loan penetration throughout the assessment area.
- There is a good distribution of loans among borrowers of different income levels and businesses of different sizes.
- Banco Popular's delivery systems were readily accessible to all portions of the bank's assessment areas.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS

Banco Popular's operations in the USVI are concentrated in St. Thomas. As of March 31, 1998, Banco Popular maintained five of its seven USVI retail branches in this assessment area. The branches contain approximately \$340 million in deposits or 84 percent of the bank's total deposits in the USVI.

During the examination period, Banco Popular originated 92 home purchase loans and refinancings, 43 home improvement loans and 106 small business loans in St. Thomas. These loans represent approximately 73 percent, 80 percent, and 71 percent, respectively, of all such loans originated in the USVI assessment areas.

DESCRIPTION OF THE ST. THOMAS ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources that include the OIA of the U.S. Department of the Interior, the U.S. Department of Commerce Bureau of the Census, 1990, HUD, the USVI Bureau of Economic Research, and the USVI Government Development Bank.

Demographic Characteristics

According to the 1990 Census, St. Thomas has a population of approximately 48 thousand, which is about half of the total population in the bank's USVI assessment areas.

Income Characteristics

The 1997 HUD adjusted median family income for St. Thomas is \$36,300. Of the seven subdistricts in St. Thomas used for this analysis, none are LMI.

Housing Characteristics

Based on the 1990 Census, of the 18,433 housing units in St. Thomas, 6,397 or 35 percent were owner-occupied while 9,248 or 50 percent were rental units. The biggest obstacle to homeownership is the high cost of housing in relation to borrower income as discussed in the description of the USVI assessment areas beginning on page BB110.

Labor, Employment and Economic Characteristics

Tourism dominates the economy of St. Thomas, which has more than twice the number of hotel rooms as St. Croix. The territorial government also provides a large number of jobs. The level of tourism impacts employment levels on the island. The hurricanes that struck in 1995 and 1996 are estimated to have caused the loss of approximately 2,500 permanent jobs. The 1997 unemployment rate for the USVI was 4.9 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

Home mortgage loans, refinancings and small business loans reflected excellent distribution throughout the island of St. Thomas. St. Thomas has no LMI subdistricts; therefore, a meaningful demand-adjusted analysis could not be conducted. For details see Exhibits 35 through 37.

Home Improvement Loans

Seventy-two percent of all home improvement loan originations used for geographic analysis in the USVI assessment areas were originated in St. Thomas. Loans were well dispersed throughout the island. On an annualized basis, the level of home improvement loans declined in St. Thomas since the prior examination (June 2, 1997); however, the period of the prior examination included the hurricane recovery period.

Home Purchase Loans and Refinancings

Of all home purchase loans and refinancings originated in the USVI assessment areas and used for geographic analysis, 68 percent were originated in St. Thomas. Loans were well dispersed throughout the island. On an annualized basis, the volume of such loans increased since the prior examination as the housing market returned to a normal level of activity after recovering from the hurricanes.

Small Business Loans

Sixty-nine percent of the bank's small business loan originations in the USVI assessment areas used for geographic analysis were originated in St. Thomas. Since the prior examination, small business loan volumes, which were impacted by the hurricanes, increased significantly on an annualized basis.

Borrower Characteristics

The distribution of home purchase loans and refinancings and home improvement loans among borrowers of different income levels was acceptable, given housing costs on the island. The distribution of loans to businesses of different sizes was excellent. For details see Exhibits 38 through 40.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflects an acceptable distribution, given the low income levels of borrowers in St. Thomas relative to housing costs, as previously discussed. For the examination period, 7 percent of home improvement loan originations were to LMI borrowers.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects an acceptable distribution, given the high housing costs and low income levels of borrowers in St. Thomas. For the examination period, 5 percent of loan originations were to LMI borrowers.

This level of lending to LMI borrowers appears to result from the significant gap between housing costs and borrower income levels, which generally precludes LMI borrowers from the housing market. As previously noted, the median housing price in St. Thomas is \$194,213. LMI families, whose income level would be \$29,040 or less, would generally be unable to finance the purchase of a home in this market.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes is excellent. Of all small business loans originated in St. Thomas, 67 percent were for loans of \$100 thousand or less. The average size of such loans was \$41,704. In addition, Banco Popular originated 84 percent of its small business loans to businesses with GAR of \$1 million or less.

Community Development Loans

As previously discussed, community development lending activity, which totaled \$9 million, assisted both St. Thomas and St. Croix.

Innovative and Flexible Lending Practices

There are no special innovative and flexible lending programs specific to St. Thomas.

INVESTMENT TEST

Contributions to organizations headquartered in St. Thomas and considered as qualified investments totaled \$7,675. Many of these organizations serve both St. Thomas and St. Croix.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular's five branches in St. Thomas are readily accessible to all portions of the assessment area.

Opening and Closing of Branches

During the examination period, Banco Popular did not open or close any branches in St. Thomas.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

All branches offer extended evening and weekend hours, as well as extended hours on government paydays. A full range of deposit and credit services and products are offered at all branches.

Community Development Services

As previously discussed, community development services benefit both St. Thomas and St. Croix.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ST. CROIX

Overall performance in St. Croix was good, based on the following summary conclusions:

- The geographic distribution of loans reflects excellent loan penetration throughout the assessment area.
- There was a good distribution of loans among borrowers of different income levels and businesses of different sizes.
- Banco Popular's delivery systems were readily accessible to all portions of the bank's assessment areas.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS

As of March 31, 1998, Banco Popular maintained two retail branches in this assessment area. The branches contained approximately \$65.5 million in deposits or 16 percent of the bank's total USVI deposits.

During the examination period, the bank originated 11 home improvement loans, 34 home purchase loans and refinancings, and 44 small business loans in St. Croix. This activity represents approximately 20 percent, 27 percent, and 29 percent, respectively, of all such loans originated in the USVI assessment areas.

DESCRIPTION OF THE ST. CROIX ASSESSMENT AREA

The following demographic and economic information was obtained from publicly available sources including the OIA of the U.S. Department of the Interior, the U.S. Department of Commerce Bureau of the Census, 1990, HUD, the USVI Bureau of Economic Research, and the USVI Government Development Bank.

Demographic Characteristics

According to the 1990 Census, St. Croix has a population of approximately 50 thousand, which represents about half the total population in the USVI assessment areas.

Income Characteristics

The 1997 HUD adjusted median family income for St. Croix was \$27,700. Of St. Croix's nine subdistricts used for the assessment area analysis, three, or one-third, are LMI.

Housing Characteristics

According to the 1990 Census, of the 18,937 housing units in St. Croix, 7,271 or 38 percent were owner-occupied while 7,774 or 41 percent were rental units. The biggest obstacle to homeownership is the high cost of housing relative to borrower income levels, as discussed in the description of the USVI assessment areas starting on page BB110.

Labor, Employment and Economic Characteristics

As in St. Thomas, the major industry in St. Croix is tourism. St. Croix also has a sizable number of manufacturing jobs. Hess Oil operates one of the world's largest petroleum refineries in St. Croix and is the largest single employer on the island. Overall, manufacturing employment in St. Croix fell during the examination period primarily because of the 1997 closing of the Vialco aluminum processing plant, another large employer in St. Croix. In 1997, the unemployment rate for the USVI was 4.9 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Geographic Distribution of Lending

The distribution of home mortgage loans, refinancings and small business loans was excellent in St. Croix. For details see Exhibits 35 through 37.

Home Improvement Loans

The bank's record of providing home improvement loans in the LMI subdistricts of St. Croix was also excellent. All home improvement loans originated in St. Croix were found in moderate-income subdistricts.

Home Purchase Loans and Refinancings

In St. Croix, Banco Popular's record of providing home purchase loans and refinancings in moderate-income subdistricts was very strong. All but 5 of the 27 home purchase loans and refinancings were originated in LMI subdistricts.

Small Business Loans

During the examination period, 42, or 31 percent, of Banco Popular's small business lending was originated in St. Croix. Twenty-one loans or 50 percent were originated in LMI subdistricts. Twenty-nine percent of branches and 16 percent of deposits in the USVI are located in St. Croix. Furthermore, since the prior examination, small business lending has increased on the island by 24 percent on an annualized basis.

Borrower Characteristics

The distribution of home purchase loans, refinancings and home improvement loans among borrowers of different income levels was acceptable, given the high housing costs and low income levels of borrowers on the island. The distribution of loans to businesses of different sizes was excellent. For details see Exhibits 38 through 40.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflects an acceptable distribution, given the low income levels of borrowers in St. Croix relative to housing costs, as discussed above. For the examination period, one of 11 home improvement loan originations was to a low-income borrower.

Home Purchase Loans and Refinancings

The distribution of home purchase loans and refinancings among borrowers of different income levels reflects an acceptable distribution, given the high housing costs and low income levels of borrowers in St. Croix. For the examination period, two of 34 loan originations were to moderate-income borrowers.

The low level of lending to LMI borrowers appears to result from the significant gap between housing costs and borrower income levels, which generally precludes LMI borrowers from the housing market. As previously noted, the median housing price in St. Croix is \$156,614. LMI families, whose income level is \$22,160 or less, would generally be unable to finance the purchase of a home in this market.

Lending to Small Businesses

Banco Popular's record of lending to businesses of different sizes is excellent. Of all small business loans originated in St. Croix, 34 loans or 77 percent were for loans of \$100 thousand or less. The average size of such loans was \$28,618, an amount that would typically meet the credit needs of small businesses. In addition, the bank originated 91 percent of its small business loans to businesses with GAR of \$1 million or less.

Community Development Loans

As previously discussed, community development lending activity, which totaled \$9 million, assisted both St. Thomas and St. Croix.

Innovative and Flexible Lending Practices

There are no special innovative and flexible lending programs specific to St. Croix.

INVESTMENT TEST

Contributions to organizations headquartered in St. Croix and considered as qualified investments totaled \$2,697. Many of these organizations serve both St. Croix and St. Thomas.

SERVICE TEST

Accessibility of Delivery Systems

Banco Popular branches were accessible to all portions of the St. Croix assessment area. Of the bank's two branches in St. Croix, one is located in an LMI subdistrict. This compares favorably with the demographics of St. Croix where three of nine subdistricts, or 33 percent, are LMI.

Opening and Closing of Branches

During the examination period, Banco Popular did not open or close any branches in St. Croix.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

All branches offer extended evening and weekend hours, as well as extended hours on government paydays. A full range of deposit and credit product services is offered at all branches.

Community Development Services

As previously noted, the bank's community development services benefit both the islands of St. Thomas and St. Croix.

EXHIBIT 34

Total Loan Originations

U.S. Virgin Islands Assessment Areas

April 1, 1997 - March 31, 1998

Loan Type	#	%	\$('000s)	%
Home Purchase	52	28.9	5,392	24.9
Refinance	74	41.1	9,826	45.5
Home Improvement	54	30.0	6,409	29.6
Total Housing Loans	180	54.6	21,627	57.8
Total Small Business	150	45.4	15,801	42.2
TOTAL LOANS	330	100.0	\$37,428	100.0

EXHIBIT 35

**DEMAND-ADJUSTED ANALYSIS FOR HOME
IMPROVEMENT LOANS**

AND

EXHIBIT 36

**DEMAND-ADJUSTED ANALYSIS FOR HOME
PURCHASE LOANS AND REFINANCINGS**

EXHIBITS 37

38

39

40

EXHIBIT 41

U.S. Virgin Islands Community Development Lending Activity

Direct Activity

Project Description	Commitment ('000s)	Outstanding ('000s)	New Money ('000s)	Housing Units	Purpose
Construction Line of Credit ("LOC") to Housing Authority	\$1,000	\$646	\$1,000	96	AH
Revolving LOC Funding Home Roof Repairs	\$150	\$150	\$150	0	AH
Reconstruction of Water System	\$4,688	\$4,688	\$0	0	ED
Working Capital LOC to Government Agency	\$3,200	\$3,200	\$3,200	76	AH
Subtotals	\$9,038	\$8,684	\$4,350	172	
Virgin Islands Direct Activity / Total Activity	16.22%	17.21%	9.64%		

Total Activity

	Commitment ('000s)	Outstanding ('000s)	New Money ('000s)	Housing Units	Purpose
Affordable Housing ("AH")	\$4,350	\$3,996	\$4,350	172	AH
Economic Development ("ED")	\$4,688	\$4,688	\$0	0	ED
Virgin Islands Total Activity	\$9,038	\$8,684	\$4,350		

CRA APPENDIX A

SCOPE OF EXAMINATION			
BANCO POPULAR DE PUERTO RICO			
TIME PERIOD REVIEWED		4/1/97 TO 3/31/98	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Banco Popular, San Juan, PR			Mortgage Loans Small Business Loans Small Farm Loans Community Development Loans
AFFILIATE(S)		AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Popular Mortgage, Inc.	Bank subsidiary		Residential Mortgage Loans
Popular Finance, Inc.	Bank subsidiary		Residential Mortgage Loans Home Improvement Loans

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
PUERTO RICO			
PMSA 7440 (San Juan-Bayamon, PR)	On-site	N/A	Loan and investment files were at the bank's administrative offices at 268 Ponce de Leon Ave., Hato Rey, PR..
MSA 6360 (Ponce, PR)	Off-site		
MSA 4840 (Mayaguez, PR)	Off-site		
MSA 0060 (Aguadilla, PR)	On-site		
PMSA 1310 (Caguas, PR)	Off-site		
PMSA 0470 (Arecibo, PR)	Off-site		
Non-Metropolitan Statistical Areas	Off-site		
U.S. VIRGIN ISLANDS			
Non-MSA St. Thomas	Off-site		
Non-MSA St. Croix	Off-site		

CRA APPENDIX B

Summary of Ratings

Banco Popular de Puerto Rico				
	Lending Test	Investment Test	Service Test	Overall Rating
Puerto Rico	Outstanding	Outstanding	Outstanding	Outstanding
United States Virgin Islands	Outstanding	High Satisfactory	High Satisfactory	Outstanding

CRA APPENDIX C

GLOSSARY

ANNUALIZED: Conversion of an average monthly figure (for example, number of loan originations) to an annual basis in order to simplify comparisons with prior years.

AREA MEDIAN INCOME: (1) The median family income for the MSA, if a person or geography (block numbering area or census tract) is located in an MSA; or (2), if a person or geography (census tract or block numbering area) is located outside an MSA, the statewide non-metropolitan median family income.

ATM: Automated teller machine.

BNA: Block numbering area.

COMMUNITY DEVELOPMENT: (1) Affordable housing including multifamily rental housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802 (a)(2) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

CRA: Community Reinvestment Act.

DEMAND-ADJUSTED: Proportion of mortgage loans and of applications 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.

FHA: Federal Housing Administration.

GAR: Gross annual revenues.

GEOGRAPHY: A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census (1990).

HMDA: Home Mortgage Disclosure Act.

HMDA-RELATED LOANS: Loans reported by the bank under Regulation C, Home Mortgage Disclosure Act. They include home purchase mortgage loans, home improvement loans, and refinancings of such loans.

HUD: The United States Department of Housing and Urban Development.

LMI: Low- and moderate-income, as in LMI census tracts.

LOW-INCOME: An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a BNA or census tract median family income that is less than 50 percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

MIDDLE-INCOME: An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

MODERATE-INCOME: An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

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

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

QUALIFIED INVESTMENT: A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

REFINANCINGS: Refinancings of HMDA-reportable home purchase and/or home improvement loans.

SBA: Small Business Administration.

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 Condition and 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.

SMALL FARM LOANS: A loan for agricultural purposes with an origination amount of \$100 thousand or less; with respect to loans originated subsequent to December 31, 1995, a loan with an origination amount of \$500 thousand or less made to a farm with gross annual revenues of \$1 million or less.

SUBDISTRICTS: Used by the Census Bureau in the United States Virgin Islands as the equivalent of census tracts and block numbering areas.

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.

VA: Veterans Administration.