PUBLIC DISCLOSURE

June 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Interchange State Bank
RSSD No. 3506

Park 80 West/Plaza Two
Saddle Brook, NJ 07663

Federal Reserve Bank of New York

33 Liberty Street
New York, NY 10045

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 ***Interchange Bank*** *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* ***June 1, 1999****. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: Interchange Bank is rated **"SATISFACTORY."**

The level of compliance of Interchange Bank 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 "high satisfactory" based primarily on the following findings:

- The number of home purchase and home improvement loans, refinancings of such loans ("refinancings"), consumer and small business loans originated by the bank during the examination period shows good responsiveness to credit needs in the bank's assessment area.

- The overall geographic distribution of loans reflects good loan penetration throughout the low- and moderate-income ("LMI") areas of the bank's assessment area.

- The distribution of consumer loans to individuals of different levels was excellent and the distribution of home purchase loans, refinancings, home improvement loans and home equity loans to individuals of different income levels was good.

- The distribution of loans to businesses of different sizes was excellent.

- The bank had a high level of community development lending totaling $3.6 million.

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

- The bank had an excellent level of qualified investments in its assessment area totaling $3.7 million.

Performance under the service test is rated "high satisfactory" based primarily on the following findings:

- Interchange's delivery systems were accessible to essentially all portions of the bank's assessment area, and services were tailored to the convenience and needs of the assessment area.

- The bank provided a relatively high level of community development services throughout its assessment area.

LENDING, INVESTMENT, AND SERVICE TESTS TABLE

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

PERFORMANCE LEVELS	INTERCHANGE BANK		
	PERFORMANCE TESTS		
	Lending Test*	**Investment Test**	**Service Test**
Outstanding		X	
High Satisfactory	X		X
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

Interchange Bank ("Interchange"), headquartered in Saddle Brook, New Jersey, is a state-chartered banking corporation and a member of the Federal Reserve System. Formerly named Interchange State Bank, Interchange is a full-service, retail-oriented bank and the only subsidiary of Interchange Financial Services Corporation, a bank holding company. As of December 31, 1998, the bank had total assets of $683 million, total loans and leases of $473 million, and total deposits of $599 million, while the holding company had total consolidated assets of $685 million.

Effective June 1, 1998, The Jersey Bank for Savings ("Jersey Bank") merged with Interchange. At the time of the merger, Jersey Bank operated two branches and had total assets of $68 million.

As of the examination date, June 1, 1999, Interchange operated 15 full-service branches in Bergen County offering a full line of deposit and loan products and services to consumers and small to medium-sized businesses. The market area is highly competitive with branches of numerous local, regional and multinational banks operating in the bank's assessment area.

Interchange's previous CRA examination was conducted as of July 7, 1997, at which time the bank received an overall rating of "satisfactory." The rating at this examination reflects a higher level of satisfactory performance than at the previous examination as a result of significant improvements in investments and community development lending.

There are no financial or legal factors that would impede Interchange in fulfilling its responsibilities under the CRA.

DESCRIPTION OF INTERCHANGE BANK'S ASSESSMENT AREA

Interchange's assessment area consists of Bergen County, New Jersey, a portion of Primary Metropolitan Statistical Area ("PMSA") 0875 (Bergen-Passaic, NJ). This densely populated area consists primarily of middle- and upper-income census tracts. Of the 177 populated census tracts, 5 are low-income and 21 are moderate-income. The low-income tracts contain a population of 95 people, 35 owner-occupied housing units and 14 business establishments.

The assessment area, which has not changed since the previous examination, is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude any LMI geographies.

Performance Context

Demographic Characteristics

The bank's assessment area includes all of Bergen County, one of New Jersey's most densely populated areas. According to the 1990 U.S. Census, the county's population totals 825,380, which is about 11 percent of the state's total population. Of the 177 populated census tracts used for HMDA analysis, 26 tracts or 15 percent are LMI tracts. Twelve percent of the population resides in LMI tracts. The population is evenly distributed throughout Bergen County with only two large cities, Hackensack and Englewood. According to a 1998 report from the Bergen County Division of Human Services, the county has the largest population of residents over the age of 55 in the state, with an estimated 173 thousand people over 60 in 1997.

Income Characteristics

Bergen County is one of the state's most affluent areas. According to the 1990 Census, the county has a median family income of $57,760 compared with the state median of $47,589. Approximately 97 thousand people, or 12 percent of the total population, reside in LMI geographies. Based on 1998 estimates by the U.S. Department of Housing and Urban Development ("HUD"), median family income for PMSA 0875 (Bergen-Passaic, NJ) was $67 thousand. In the 1990 Census, 72 thousand or 32 percent of families were considered LMI. Three percent of the population had income below the poverty level ($12,674 for a family of four), with the highest concentrations of this group found in 9 of the county's 70 municipalities. Interchange maintains a branch in Garfield, one of the nine towns with a high concentration of poverty-level residents.

Housing Characteristics

In 1990, the median cost of housing was $226 thousand, higher than the state median of $161 thousand. The median gross rent was $689 compared with the state median rent of $592. Thirty-one percent of housing units were rentals, and 31 percent of those renting spent more than 30 percent of income on rent. Approximately 65 percent of housing was owner-occupied compared with 61 percent in the PMSA and 59 percent statewide. Bergen County had the highest median value of owner-occupied housing in the state. The median age of housing was 43 years with about one-quarter built in 1939 or earlier. The 1990 Census found that the county had the lowest moving rate in the state, which indicates a stable population but a shortage of existing housing for sale or rent.

Labor, Employment and Economic Characteristics

In 1990, the Bergen County economy was healthier than any other county in New Jersey. The county had the highest total dollar earnings from manufacturing and the largest number of retail and wholesale establishments. In 1990, employment was found predominantly in the services sector, with manufacturing and retail in second and third place among employers, respectively. By 1994, manufacturing dropped to third place and retail moved up to second place as a source of jobs. According to the Bergen County Office of Community Development, the unemployment rate in late 1998 was 4 percent, lower than both the state and federal rates.

Community contacts made during this examination indicated that affordable rental housing is needed, but the scarcity of undeveloped land leaves few opportunities for new housing development at affordable prices. Subsidies are necessary in order to make housing affordable for LMI individuals since both home prices and rents are beyond the reach of most low-income borrowers. Other needs cited by community contacts include more reverse mortgage programs for senior citizen homeowners and loans for construction and support of small businesses.

For a demographic summary of the bank's assessment area, see Exhibit 1. The following map illustrates Interchange's assessment area.

INSERT MAP OF assessment area

SCOPE OF EXAMINATION

The examination period covers Interchange's lending activities from April 1, 1997, through December 31, 1998. The bank's performance was reviewed using the *Interagency Procedures and Guidelines for Large Retail Institutions*. All calculations have been rounded to the nearest whole number.

Loan products evaluated include HMDA-related loans (home purchase loans, home improvement loans, and refinancings of such loans), small business loans and other loans that qualified as community development loans. At the bank's option, consumer loans were also evaluated. The consumer lending includes reverse mortgage loans that are a unique product offered by only one other bank in New Jersey. The reverse mortgages were evaluated together with home equity loans but were reviewed separately from the other consumer products. In addition, bank investments, grants and services qualifying as community development were included in the evaluation.

The assessment under the CRA included meeting with members of the local community to assist examiners in ascertaining community credit needs. The contacts included organizations such as the New Jersey Community Loan Fund and the Housing Authority of Bergen County.

For evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 Census income data. The distribution of loans to borrowers of different income levels was determined based on 1998 HUD-estimated median family income data.

In evaluating the geographic distribution of HMDA-related loans, the percentage of owner-occupied homes in LMI census tracts was compared with the percentage of loans originated in those tracts. For small business loans, the percentage of small business loans was compared with the percentage of businesses in each tract.

The bank's HMDA-related and small business loan performance was compared with the aggregate of all lenders in the bank's assessment area reporting real estate loans under HMDA and small business loans under the CRA. This data is reported annually, and the most recent year for which information was available was 1997. In that year, there were a total of 439 HMDA reporters and 107 small business reporters in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Under the lending test, Interchange's record of meeting the credit needs of its assessment area through its lending activity is rated "high satisfactory."

Lending Activity

Interchange's lending activity reflects a good response to credit needs in the bank's assessment area. The bank addressed credit needs by offering and originating an adequate volume of home purchase loans and refinancings, a good level of home improvement loans as well as an adequate level of home equity loans. An excellent level of activity was found in both consumer and small business loan activity. Within the assessment area, Interchange originated 1,824 loans totaling $139 million during the examination period: 506 were home purchase loans and refinancings totaling $57 million, 328 were home improvement loans totaling $14 million, 506 were home equity loans totaling $23 million, 213 were consumer loans totaling $2 million, 7 were multifamily loans totaling $5 million, and 264 were small business loans totaling $37 million.

On an annualized basis, Interchange exhibited an increase in all loan activity in and out of the assessment area since the previous examination. Home purchase loans increased 34 percent. Refinancings decreased 21 percent, however, which bank management attributed to increased competition from other lenders. Home equity, consumer and small business lending increased 56 percent, 12 percent and 10 percent, respectively. Increased loan volumes were attributed to the bank's marketing efforts.

In 1997, Interchange originated approximately 2 percent of all HMDA-related loans in its assessment area and was among the top ten producers of such loans in the assessment area. The bank had a slightly smaller share of the small business lending market in the same year, originating 1 percent of all small business loans reported.

During the examination period, a substantial majority of the bank's loans (75 percent) were originated in the assessment area. Of HMDA-related loan products, 72 percent or 841 loans were originated in the assessment area. Of the home equity and consumer loans, 78 percent (506 loans) and 77 percent (213 loans), respectively, were originated in the assessment area. Seventy-nine percent or 264 small business loans were originated in the assessment area. For details, see Exhibit 2.

Geographic Distribution of Lending

Overall, the analysis demonstrates good loan distribution among the moderate-, middle- and upper-income geographies in the bank's assessment area. The five populated low-income census tracts in the bank's assessment area contain neither significant population nor a significant number of owner-occupied units. For these reasons, the distribution in low-income tracts is not material to the following conclusions. For details, see the Description of Assessment Area section beginning on page BB6 and Exhibits 3 and 4.

Home Purchase Loans and Refinancings

The geographic distribution of home purchase loans and refinancings reflects adequate distribution throughout the bank's assessment area. During the examination period, 5 percent of home purchase loans and refinancings were originated in moderate-income geographies, while 8 percent of owner-occupied housing units in the assessment area are located in moderate-income geographies. The level of lending in moderate-income geographies decreased slightly since the previous examination when the bank originated 6 percent of its loans in such geographies.

In 1997, Interchange was consistent with the aggregate of all HMDA reporters within the bank's assessment area. While Interchange originated 5 percent of home purchase loans and refinancings in moderate-income geographies, the aggregate originated 6 percent of loans in such geographies. In 1998, the bank's lending in moderate-income geographies remained at 5 percent, the same percentage as in the previous year.

Home Improvement Loans

The geographic distribution of home improvement loans reflects good distribution throughout the bank's assessment area. During the examination period, 7 percent of home improvement loans were originated in moderate-income geographies, while 8 percent of owner-occupied housing units in the assessment area are located in moderate-income geographies. The level of lending in moderate-income geographies dropped slightly since the previous examination when the bank originated 9 percent of its loans in such geographies.

In 1997, Interchange underperformed the aggregate of HMDA reporters within the bank's assessment area. While Interchange originated 5 percent of home improvement loans in moderate-income geographies, the aggregate originated 9 percent of its loans in such geographies. The bank's lending in moderate-income geographies increased `in 1998. During that year, Interchange originated 8 percent of home improvement loans in moderate-income geographies.

Home Equity Loans

The geographic distribution of home equity loans reflects an adequate distribution throughout the bank's assessment area. During the examination period, 5 percent of home equity loans were originated in moderate-income geographies, while 8 percent of owner-occupied housing units in the assessment area are located in moderate-income geographies. The level of lending in moderate-income geographies did not change since the previous examination. Aggregate reports were not available for comparison.

Consumer Loans

The geographic distribution of consumer loans reflects excellent distribution throughout Interchange's assessment area. During the examination period, 15 percent of consumer loans were originated in moderate-income geographies in which 12 percent of the area's households reside. The level of lending in moderate-income geographies increased since the previous examination when the bank originated 9 percent of its loans in such geographies. Aggregate reports were not available for comparison.

Small Business Loans

The geographic distribution of small business loans reflects excellent distribution throughout the bank's assessment area. During the examination period, 19 percent of small business loans were originated in moderate-income geographies, while 15 percent of business establishments in the assessment area are located in moderate-income geographies. The lending level in moderate-income geographies decreased slightly since the previous examination when the bank originated 20 percent of its loans in such geographies.

In 1997, Interchange outperformed the aggregate of small business reporters within the bank's assessment area. Interchange originated 23 percent of small business loans in moderate-income geographies, while the aggregate originated 17 percent of its loans in such geographies. The bank's lending in LMI geographies decreased in 1998. That year, Interchange originated 16 percent of small business loans in LMI geographies.

Borrower Characteristics

The overall distribution of loans among borrowers of different income levels and businesses of different sizes was good. For details, see Exhibits 5 and 6.

Home Purchase Loans and Refinancings

Interchange's distribution of home purchase loans and refinancings among borrowers of different income levels was good. Overall, the bank originated 21 percent of such loans to LMI borrowers, while LMI families represent 32 percent of the families in the assessment area. Seventy-nine percent of home purchase loans and refinancings were made to middle- and upper-income borrowers, with middle- and upper-income families representing 66 or 68 percent of the total number of families in the assessment area. In 1997, the bank's level of lending to LMI borrowers exceeded that of the aggregate of HMDA reporters in the bank's assessment area. Interchange originated 26 percent of its loans to LMI borrowers, while the aggregate originated 17 percent of such loans to LMI borrowers. Between 1997 and 1998, the bank's lending to LMI borrowers decreased. In 1998, Interchange originated 19 percent of home purchase loans and refinancings to LMI borrowers.

Overall, the bank's level of home purchase loans and refinancings was higher for moderate-income borrowers than low-income borrowers. The bank originated 18 percent of such loans to moderate-income families, who represent 17 percent of the families in the assessment area. In 1997, the bank's level of lending to moderate-income borrowers exceeded that of the aggregate of HMDA reporters in the bank's assessment area. Interchange originated 21 percent of its loans to moderate-income borrowers, while the aggregate originated 14 percent of such loans to this group. In 1998, Interchange originated 16 percent of home purchase loans and refinancings to moderate-income borrowers.

During the examination period, the bank originated 3 percent of its home purchase loans and refinancings to low-income families, who represent 15 percent of the families in the assessment area. In 1997, the bank's level of lending to low-income borrowers exceeded that of the aggregate of HMDA reporters in the bank's assessment area. Interchange originated 5 percent of its loans to low-income borrowers, while the aggregate originated 3 percent of such loans to that group. In 1998, Interchange originated 2 percent of home purchase loans and refinancings to low-income borrowers.

The overall lending to low-income borrowers reflects the gap between income levels and housing costs, as discussed in the Performance Context section on page BB6. The 1990 PMSA median family income is approximately $58 thousand, and the 1990 PMSA median housing value is $226 thousand. Thus, it would generally be difficult for a low-income family earning $29 thousand to purchase a home.

Home Improvement Loans

Interchange's distribution of home improvement loans among borrowers of different income levels was good. LMI families represent 32 percent of the families in the assessment area, and the bank originated 29 percent of its home improvement loans to LMI borrowers. Seventy-one percent of home improvement loans were made to middle- and upper-income borrowers. In 1997, the bank's level of lending to LMI borrowers was comparable to that of the aggregate of HMDA reporters in the bank's assessment area. While Interchange originated 29 percent of its loans to LMI borrowers, the aggregate originated 28 percent of such loans to LMI borrowers. In 1998, Interchange originated 28 percent of home improvement loans to LMI borrowers.

The level of home improvement loans to moderate-income borrowers exceeded the level of moderate-income families in the assessment area. The bank originated 21 percent of home improvement loans to moderate-income families, who represent 17 percent of the families in the assessment area. In 1997, the bank's level of lending to moderate-income borrowers exceeded that of the aggregate of HMDA reporters in the bank's assessment area. While Interchange originated 19 percent of its loans to moderate-income borrowers, the aggregate originated 17 percent of such loans to that group. In 1998, Interchange originated 21 percent of home improvement loans to moderate-income borrowers.

The bank originated 8 percent of its home improvement loans to low-income borrowers, while low-income families represent 15 percent of the families in the assessment area. In 1997, the bank's level of lending to low-income borrowers was comparable to that of the aggregate of HMDA reporters in the bank's assessment area. While Interchange originated 10 percent of its loans to low-income borrowers, the aggregate originated 11 percent of such loans to this group. In 1998, Interchange originated 7 percent of home improvement loans to low-income borrowers.

Home Equity Loans

Interchange's distribution of home equity loans among borrowers of different income levels was good. LMI families represent 32 percent of the families in the assessment area, and the bank originated 24 percent of the home equity loans to LMI borrowers. Seventy-six percent of home equity loans were made to middle- and upper-income borrowers.

Overall, the bank's level of home equity loans to LMI borrowers was the highest among moderate-income borrowers. The bank originated 14 percent of home equity loans to moderate-income families, who represent 17 percent of the families in the assessment area. The bank originated 10 percent of its home equity loans to low-income borrowers, while low-income families represent 15 percent of the families in the assessment area. Aggregate reports were not available for comparison.

Consumer Loans

Interchange's distribution of consumer loans among borrowers of different income levels was excellent. LMI families represent 32 percent of the families in the assessment area, and the bank originated 67 percent of the consumer loans to LMI borrowers. Thirty-three percent of consumer loans were made to middle- and upper-income borrowers.

Overall, the bank's level of consumer lending to LMI borrowers was the highest among moderate-income borrowers. The bank originated 21 percent of consumer loans to moderate-income families, who represent 17 percent of the families in the assessment area. The bank originated 46 percent of its consumer loans to low-income borrowers, while low-income families represent 15 percent of the families in the assessment area. Aggregate reports were not available for comparison.

Lending to Small Businesses

Interchange's record of lending to businesses of different sizes was good. Approximately 66 percent of small business loans originated by Interchange during the examination period were for amounts less than or equal to $100 thousand. The average size of such loans was $43 thousand, an amount that would typically meet the credit needs of smaller businesses. For details, see Exhibit 6.

The bank’s performance in 1997 was comparable to that of the aggregate of other small business lenders in the bank’s assessment area. Of Interchange’s reported small business loans, 68 percent were for $100 thousand or less, compared with the aggregate figure of 67 percent. In 1998, Interchange originated 62 percent of small business loans in the $100 thousand or less category.

Approximately 54 percent of the bank's small business loans originated during the examination period were made to businesses with gross annual revenues (“GAR”) of $1 million or less. Although 81 percent of the businesses in the assessment area have GAR of $1 million or less, the bank in 1997 exceeded the aggregate in lending to small businesses. Interchange originated 53 percent of its small business loans to businesses with GAR of $1 million or less compared with the aggregate's figure of 34 percent. The bank’s lending in 1998 to businesses with GAR of $1 million or less was similar to that in 1997. In1998, the bank’s lending to businesses with GAR of $1 million or less was 54 percent of small business loans.

Community Development Lending

Interchange’s community development lending performance was excellent. During the examination period, community development lending totaled $3.6 million, of which $3.3 million or 93 percent were commitments originated since the previous examination.

Commitments at this examination are significantly higher than at the previous examination when community development loans totaled $235 thousand. For details, see Exhibit 7.

Community development lending in support of affordable housing initiatives totaled $3.5 million, or 98 percent of total activity, and provided for the construction, purchase, or site preparation of 122 affordable units. Community contacts made during the Interchange examination period documented the need for affordable housing. Lending related to community services totaled $68 thousand or 2 percent of total activity.

Activity was directed primarily toward direct lending initiatives. Of the six community development loan commitments, five were direct loans totaling $3.5 million or 98 percent of activity.

Innovative or Flexible Lending Practices

Considering Interchange's size and resources, the bank's lending products show a high level of innovative and flexible lending practices designed to meet the credit needs of LMI individuals and geographies as well as small businesses. Interchange is only one of two banks in New Jersey offering reverse mortgage loans for persons 62 years and older. (For definition of reverse mortgage, see the CRA Glossary beginning on page BB32.) As previously stated, Bergen County has the highest percentage of senior citizens of any New Jersey county with approximately 16 thousand or 16 percent of the senior population in the LMI category. During the examination period, the bank originated 24 loans totaling $3.6 million in reverse mortgages. In total, the bank has originated a portfolio of $14.4 million of such loans.

Interchange is a certified Small Business Administration ("SBA") lender and offers all SBA programs except for the business credit line feature of the Low Doc Program, which is similar to an existing Interchange product. During the examination period, the bank originated five SBA Section 504 loans totaling $5 million and three SBA Low-Doc loans totaling $165 thousand. In addition, Interchange originated 121 Rapid Response Business Loans totaling $4 million. (For definitions, see the CRA Glossary.)

Interchange originated eight loans in conjunction with the New Jersey Economic Development Authority ("NJEDA"). The NJEDA provides loan guarantees to businesses in New Jersey communities considered in need of economic revitalization. These guarantees allow businesses that might not otherwise qualify for financing to obtain a bank loan.

INVESTMENT TEST

Interchange's performance under the investment test is rated "outstanding." The bank had an excellent level of qualified investments, exhibited a good level of responsiveness to community development needs, and made good use of an innovative investment to address those needs. The high level of investments is a significant improvement over that of the previous examination. For details, see Exhibit 8.

Dollar Amount of Qualified Investments

The bank's level of qualified investments was excellent, totaling $3.7 million. Total investments included $2.4 million in two bonds directed to municipal developments, $1.3 million in mortgage-backed securities ("MBS") consisting of a majority of loans to LMI individuals, and $52 thousand in charitable grants and contributions to organizations supporting community development projects and programs.

Responsiveness of Qualified Investments to Credit and Community Development Needs

The bank exhibited a good level of responsiveness to the most pressing community development needs in its assessment area. Thirty-six percent of investments or $1.3 million were directed to affordable housing, a primary need in the bank's assessment area. Approximately 64 percent of investments or $2.4 million went to economic development activity, and about 1 percent or $5,000 to community services.

Innovative and Complex Investments

Interchange made significant use of innovative and complex investments. The bank's qualified investments include investments in debt instruments issued by municipalities for community development in LMI areas and the purchase of MBS supporting affordable housing. In addition, Interchange made a donation to a municipal fund that finances affordable housing in the bank's assessment area.

SERVICE TEST

Interchange's rating on the service test is "high satisfactory" based on the bank's record of providing services within its assessment area. Retail services and delivery systems were accessible to essentially all portions of the assessment area, and the bank's record of opening and closing branches improved access to its services. Interchange provided a relatively high level of community development services.

Retail Banking Services

Accessibility of Delivery Systems

The bank's branch system is accessible to essentially all portions of the assessment area. During the examination period, Interchange operated 15 full-service branches in its assessment area. One branch, representing 7 percent of the branch total, is located in Garfield in a moderate-income geography. Another branch is located in the city of Lodi's only middle-income census tract, but the branch is surrounded by three moderate-income geographies and is easily accessible by LMI residents in those areas. Another branch is located in the middle-income municipality of Little Ferry that lies immediately north of Moonachie, a moderate-income geography. When the Lodi and Little Ferry branches are considered, 20 percent of the branches are readily accessible to the moderate-income geographies. This compares favorably with the fact that 26 percent of the geographies in the assessment area are LMI.

Record of Opening and Closing of Branches

The bank's record of opening and closing of branches has not adversely affected accessibility of its delivery systems, particularly in LMI geographies. Effective June 1, 1998, the two Jersey Bank branches were merged into Interchange. Neither is in an LMI geography. The bank also opened a branch in Paramus, but not in an LMI geography.

No branches were closed. Interchange's written branch closing policy conforms to the *Joint Interagency Policy Statement Regarding Branch Closings.* The bank's closing policy stipulates that before action is taken management consult with community leaders and consider factors including, but not limited to, alternatives to services, demand for services, and impact on customers and the community. The policy requires timely advance notification to applicable regulatory agencies and affected customers.

Availability and Effectiveness of Alternative Delivery Systems for Delivering Retail Banking Services

Interchange's alternative delivery systems were accessible to essentially all portions of the assessment area. As of the examination date, June 1, 1999, the bank operated 15 automated teller machines ("ATMs"); 12 or 80 percent at branch locations. One ATM is located in Garfield in a moderate-income tract. The Lodi branch does not have an ATM, but the branch in the adjoining city of Garfield offers a 24-hour ATM. The three off-site ATMs are located in supermarkets. Thirteen ATMs are accessible 24 hours a day, including the ATM in the moderate-income geography. Other alternative delivery systems include banking by mail and by telephone.

Reasonableness of Business Hours and Services, and the Degree to Which They Meet Assessment Area Needs

Interchange's business hours and services did not vary between branch offices in a way that inconvenienced certain portions of the assessment area. The bank's business hours and services were tailored to meet the convenience and needs of the assessment area, including LMI geographies and LMI individuals. All branches offer a complete range of retail and commercial deposit and credit products and services. All branches offer extended evening and early morning hours. Fourteen branches, including the LMI branch, are open from 9 a.m. to noon on Saturdays.

Community Development Services

Given its size and resources, Interchange provided a relatively high level of community development services. A no-fee, low-balance checking account targeted to depositors over age 55 was instituted in 1999. The bank also provided special savings accounts for children and an education individual retirement account ("IRA"), which is available at all branches including those serving predominantly LMI families. Members of the bank staff visited schools in the assessment area to talk to students about saving and to open accounts and accept deposits. The bank's chief executive officer frequently appears on television and radio to discuss reverse mortgage lending and small business financing.

Seminars

During the examination period, the bank sponsored or participated in 14 community service seminars and fairs in conjunction with schools, chambers of commerce and local businesses. The bank focuses on programs for senior citizens, schoolchildren and small businesses.

Technical Assistance

Management and staff served as directors, financial advisors or committee members for organizations inside and outside the assessment area. The Garfield and Lodi Chambers of Commerce, Shelter Our Sisters (home for battered women), the Hole in the Wall Gang Camp (for children with catastrophic diseases), and United Way of Bergen County are some of the organizations receiving technical assistance.

COMPLIANCE WITH FAIR LENDING LAWS

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

EXHIBITS

EXHIBIT 1

Demographic Summary of Assessment Area

CENSUS TRACT CHARACTERISTICS	
Total Number of Tracts	210
LESS: Zero Population/Housing	33
Tracts for Analysis	177
Number of Low-income Tracts (populated)	5
Number of Moderate-income Tracts	21
Percentage of Low-income Tracts	3%
Percentage of Moderate-income Tracts	12%
ASSESSMENT AREA DEMOGRAPHICS	
Population	825,380
Population in Low-income Tracts	95
Population in Moderate-income Tracts	96,713
Percentage in Low-income Tracts	0.0%
Percentage in Moderate-income Tracts	11.7%
Number of Owner-occupied Units	209,807
Number of Owner-occupied Units in Low-income Tracts	35
Number of Owner-occupied Units in Moderate-income Tracts	16,059
Percentage of Owner-occupied Units in Low-income Tracts	0.0%
Percentage of Owner-occupied Units in Moderate-income Tracts	7.7%

EXHIBIT 2

Summary of Lending In and Out of Assessment Area

April 1, 1997 – December 31, 1998

	In Assessment Area				Out of Assessment Area				TOTALS	
Loan Purpose	**# of Loans**	**% of Total**	**$ Amt. (‘000s)**	**% of Total**	**# of Loans**	**% of Total**	**$ Amt. (‘000s)**	**% of Total**	**# of Loans**	**$ Amt. (‘000s)**
Home Purchase & Refinancings	506	71.37	56,802	72.71	203	28.63	21,320	27.29	709	78,122
Home Improvement	328	73.05	13,906	66.97	121	26.95	6,858	33.03	449	20,764
Multifamily	7	46.67	$5,345	69.94	8	53.33	2,297	30.06	15	7,642
TOTALS (HMDA-related)	**841**	**71.70**	**76,053**	**71.39**	**332**	**28.30**	**30,475**	**28.61**	**1,173**	**106,528**
Small Business	261	78.38	37,146	66.10	72	21.62	19,054	33.90	333	56,200
Small Farm	3	100.0	310	100.0	0	0	0	0	3	310
TOTALS (Small Bus./ Small Farm)	**264**	**78.57**	**37,456**	**66.28**	**72**	**21.43**	**19,054**	**33.72**	**336**	**56,510**
Home Equity	506	77.97	23,384	78.91	143	22.03	6,249	21.09	649	29,633
Consumer	213	76.90	2,174	79.00	64	23.00	578	21.00	277	2,752
TOTALS (Consumer)	**719**	**77.65**	**25,558**	**78.92**	**207**	**22.35**	**6,827**	**21.08**	**926**	**32,385**

Exhibit 3

Exhibit 4

EXHIBIT 5

Distribution of Housing Loans by Borrower Income Levels

April 1, 1997 – December 31, 1998

	Home Purchase & Refinancings	Home Improvement	Home Equity	TOTALS
Low Income (<50% of Median Income)				
Number of Loans	16	25	50	91
Percentage of Total	3.19	7.72	10.00	6.87
Percentage of Families	14.74	14.74	14.74	14.74
Percentage of Loans Compared with % of Families	22	52	68	47
Moderate Income (50-79% of Median Income)				
Number of Loans	88	68	69	225
Percentage of Total	17.56	20.99	13.8	16.99
Percentage of Families	17.06	17.06	17.06	17.06
Percentage of Loans Compared with % of Families	103	123	81	100
Middle Income (80-119% of Median Income)				
Number of Loans	129	88	143	360
Percentage of Total	25.75	27.16	28.5	29.17
Percentage of Families	23.65	23.65	23.65	23.65
% of Loans Compared with % of Families	109	115	121	123
Upper Income (>=120% of Median Income)				
Number of Loans	268	143	239	650
Percentage of Total	53.49	44.14	47.7	48.94
Percentage of Families	44.55	44.55	44.55	44.55
Percentage of Loans Compared with % of Families	120	99	107	110
TOTALS				
Number of Loans	**501**	**324**	**501**	**1,326**

EXHIBIT 6

Insert

Distribution of Small Business & Small Farm Loans by Loan Size to All Businesses

EXHIBIT 7

Community Development Lending Activity

Project Description	Commitment ($'000s)	Outstanding ($'000s)	New Money ($'000s)	CD Credit	Housing Units
Affordable Housing					
Site Preparation	$2,300	$2,300	$2,300	NA	76
Refinance/Rehab	375	365	375	NA	31
Purchase/ Construction	828	823	650	NA	15
Subtotal Affordable Housing	**$3,503**	**$3,488**	**$3,325**	**NA**	**122**
Community Services					
Social Services	$68	$61	0	$61	NA
TOTALS	**$3,571**	**$3,549**	**$3,325**	**$61**	**122**

EXHIBIT 8

Qualified Investment Activity

Project Name	*Description*	*Commitment*	*%*	*Type*
GMAC	MBS*	$1,297,624	35	AH
Garfield	BAN**	387,378	10	ED
Lodi	BAN	1,999,560	54	ED
Various Donations	Grants	51,766	1	AH, ED, CS
TOTAL		**$3,736,328**	**100**	

* Mortgage-backed securities.
** Bond anticipation notes.

BONDS

The two BANs totaled $2,386,938, and both were for public projects in moderate-income geographies:

- Garfield -- $387,378 for improvements to the water supply system;
- Lodi -- $1,999,560 for capital improvements, along with renovations to municipal buildings and park facilities in LMI geographies.

Overall Total by Type of Investment		
Economic Development (“ED”)	$2,387,738	64%
Community Services (“CS”)	5,416	<1%
Affordable Housing (“AH”)	1,343,174	36%
TOTAL	**$3,736,328**	
Donations/Grants by Type of Investment		
Economic Development	$800	2%
Community Services	5,416	10%
Affordable Housing	45,550	88%
TOTAL	**$ 51,766**	

CRA APPENDICES

CRA APPENDIX A

SCOPE OF EXAMINATION

The examination period covers activities of Interchange Bank from April 1, 1997, through December 31, 1998. The bank's performance was evaluated using the *Interagency Procedures and Guidelines for Large Retail Institutions.*

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	**4/1/97 TO 12/31/98**		
FINANCIAL INSTITUTION **INTERCHANGE BANK** **SADDLE BROOK, NJ**			**PRODUCTS REVIEWED** • **Home Purchase Loans** • **Refinancings** • **Home Improvement Loans** • **Small Business Loans** • **Consumer Loans**
AFFILIATE(S)			**PRODUCTS REVIEWED**
None			
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	**TYPE OF EXAMINATION**	**BRANCHES VISITED**	**OTHER INFORMATION**
NEW JERSEY **BERGEN-COUNTY**	**On-site**	• **Park 80 W, Plaza 2 Saddle Brook, NJ** • **185 Garibaldi Ave. Lodi, NJ**	

CRA APPENDIX B

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: The median family income for the county.

ATM: Automated teller machine.

BOND ANTICIPATION NOTE ("BAN"): A short-term debt instrument with a maturity under a year, issued by a municipality or local government, usually for capital improvement projects, that is paid off when long-term bonds are issued. (Dictionary of Banking Terms, Third Edition, by Thomas Fitch).

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.

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

CRA: Community Reinvestment Act.

DEMAND-ADJUSTED: Proportion of small business loans per thousand small business establishments in an area, as applicable.

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).

HOME EQUITY CONVERSION MORTGAGE: A Federal Housing Administration-insured reverse mortgage offered by Interchange and targeted to homeowners aged 62 or older. The borrower's equity is the repayment source of the loan. There are no income or credit history requirements.

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 and multifamily 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 metropolitan statistical area ("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 block number area ("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.

MORTGAGE-BACKED SECURITIES ("MBS"): Investment grade securities backed by a pool of mortgages or trust deeds. Principal and interest payments on the underlying mortgages are used to pay semiannual interest and principal on the securities. Income from the principal and interest payments on the underlying mortgages are used to pay off the bonds. (Dictionary of Banking Terms, Third Edition, by Thomas Fitch).

PEERS: Similarly situated banks**.**

PERFORMANCE CONTEXT: The economic and demographic characteristics of a bank's assessment area(s). The following information is considered to help understand the context in which an institution's performance should be evaluated: (1) the economic and demographic characteristics of the assessment area(s); (2) lending, investment, and service opportunities in the assessment area(s); (3) the institution's product offerings and business strategy; (4) the institution's capacity and constraints; (5) the prior performance of the institution, and in appropriate circumstance, the performance of similarly situated institutions; and (6) other relevant information.

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.

RAPID RESPONSE BUSINESS LOAN: Under this program**,** loans of up to $100 thousand are targeted to small businesses. The program also features a streamlined approval process, and five-year fixed payments with no prepayment penalty on term loans and variable rates tied to prime on lines of credit..

REFINANCINGS: Refinanced HMDA-reportable home purchase loans.

REVERSE MORTGAGE: A mortgage which provides income to older borrowers based on the accumulated equity in the underlying property.

SBA: Small Business Administration, an agency of the U.S. government that guarantees small business loans.

SMALL BUSINESS ADMINISTRATION 504 LOAN PROGRAM: Provides growing businesses with long-term, fixed-rate financing for major fixed assets, such as land and buildings. For each $35 thousand of funds borrowed from the 504 Loan Program, one full-time permanent private job is retained or created, or there is an alternative explicit economic impact on the local economy.

SMALL BUSINESS ADMINISTRATION LOW DOC PROGRAM: The SBA's quick and easy program for providing a guaranty on small business loans of $150 thousand or less. SBA will guarantee up to 80 percent of the loan if it is for $100 thousand or less and 75 percent on loans of more than $100 thousand.

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; a loan with an origination amount of $500 thousand or less made to a farm with gross annual revenues of $1 million or less.

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.