

PUBLIC DISCLOSURE

JUNE 5, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

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

**P O BOX 2708
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FEDERAL RESERVE BANK OF NEW YORK

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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 **June 5, 2000**. 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 (“BPPR”) 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 loans, home purchase loans and refinancings of such loans (“refinancings”), as well as small business loans originated by the bank and its affiliates during the examination period showed excellent responsiveness to credit needs in the bank’s assessment areas. In 1998, the bank was the primary provider of home improvement and small business loans in Puerto Rico.
- The overall geographic distribution of loans reflected excellent loan penetration throughout the assessment areas, especially in low- and moderate-income (“LMI”) areas.
- While the distribution of loans to customers of different income levels was adequate, the distribution of loans to businesses of different sizes was excellent. A significant majority of the bank’s small business loans were for amounts of \$100 thousand or less and to businesses with gross annual revenues of \$1 million or less, indicating that the bank is meeting the credit needs of smaller businesses.
- The bank had an excellent level of community development lending totaling \$111.7 million.

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

- The bank had an excellent level of qualified investments totaling \$127.4 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.

LENDING, INVESTMENT AND SERVICE TESTS TABLE

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			

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

DESCRIPTION OF INSTITUTION

BPPR, 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. Organized under the banking laws of the Commonwealth of Puerto Rico, the bank is a wholly owned subsidiary of Popular, Inc., San Juan, Puerto Rico. Subsidiaries of BPPR relevant to this examination include Popular Finance, Inc. ("Popular Finance"), a small loan and secondary mortgage company; Popular Mortgage, Inc. ("Popular Mortgage"), a mortgage origination and secondary marketing subsidiary; Levitt Mortgage, a mortgage origination subsidiary of Popular Mortgage; and Popular Securities, Inc. ("Popular Securities"), a registered broker dealer. As of December 31, 1999, the bank had total assets of \$18.3 billion, net loans and leases of \$9.2 billion, total deposits of \$10.4 billion and total branch deposits of \$7.7 billion. At the same time, the holding company's consolidated assets totaled approximately \$26 billion.

As of December 31, 1999, BPPR operated 203 retail branches in its assessment areas, including 196 in Puerto Rico and 7 in the United States Virgin Islands ("USVI"). Approximately 95 percent or \$7.3 billion of branch deposits were in Puerto Rico. Of the bank's total assets, \$17.8 billion or 97 percent were in Puerto Rico, with the remainder in the USVI.

BPPR's previous CRA examination was conducted as of August 3, 1998, at which time the bank received an overall rating of "outstanding." On an individual basis, both the Commonwealth of Puerto Rico and the USVI received "outstanding" ratings. There are no financial or legal factors that would keep BPPR from fulfilling its responsibilities under the CRA.

DESCRIPTION OF ASSESSMENT AREAS

The bank has 11 assessment areas which include one Consolidated Metropolitan Statistical Area ("CMSA"), three Metropolitan Statistical Areas ("MSAs"), and seven non-MSAs in Puerto Rico and the USVI, as follows:

PUERTO RICO

- CMSA 7442 (San Juan-Caguas-Arecibo, PR), consisting of PMSA 7440 (San Juan-Bayamon, PR), PMSA 1310 (Caguas, PR) and PMSA 0470 (Arecibo, PR).
- MSA 6360 (Ponce, PR).
- MSA 4840 (Mayaguez, PR).
- MSA 0060 (Aguadilla, 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.

UNITED STATES VIRGIN ISLANDS

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

The bank's overall assessment area changed since the previous examination. In January 1999, the holding company completed the reorganization of its U.S. operation by consolidating its banking subsidiaries in California, Florida, Illinois and New Jersey, and BPPR branches in New York into one bank known as Banco Popular North America. Concurrent with the reorganization, the New York assessment area was eliminated from BPPR's overall assessment area.

BPPR's assessment areas, as defined above, 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 BPPR assessment areas is 3.6 million, 97 percent of which resides in Puerto Rico. Median income levels are substantially lower than in the U.S. When family income is compared with housing prices, it is apparent that homeownership is generally beyond the reach of most LMI families in the assessment areas. Therefore, there is a strong need for affordable housing and loans to rehabilitate existing housing. Another credit need is small business lending to encourage the creation or expansion of small businesses. Demographic data and credit need information are detailed in the Performance Context sections of the specific assessment areas discussed in this report.

The following map illustrates BPPR's assessment area:

INSERT MAP OF ASSESSMENT AREA

SCOPE OF EXAMINATION

A full-scope analysis of BPPR's performance was conducted using the *Interagency Procedures and Guidelines for Large Retail Institutions* in CMSA 7442 (San Juan-Caguas-Arecibo, PR) and MSA 6360 (Ponce, PR) assessment areas of Puerto Rico, and in the USVI assessment areas. Performance in the Puerto Rico assessment areas dominated the bank's overall rating since Puerto Rico accounts for 97 percent of the bank's branches and 95 percent of the bank's total branch deposits. Overall performance in Puerto Rico was primarily influenced by performance in CMSA 7442 (San Juan-Caguas-Arecibo, PR), which represents 64 percent of the total population, 66 percent of LMI families, 67 percent of branches and 76 percent of deposits in the combined Puerto Rico assessment areas.

Within the CMSA assessment area, performance in PMSA 7440 (San Juan-Bayamon, PR) was most influential in determining the overall rating of the CMSA. PMSA 7440 (San Juan-Bayamon, PR) accounts for 81 percent of the population, 81 percent of LMI families, 87 percent of deposits, and 86 percent of branches in the CMSA assessment area. In addition, PMSA 7440 (San Juan-Bayamon, PR) contains 52 percent of the population, 58 percent of the bank's branches and 66 percent of the bank's deposits in the combined Puerto Rico assessment areas.

General conclusions regarding the bank's performance in MSA 4840 (Mayaguez, PR) and MSA 0060 (Aguadilla, PR) as well as all the non-MSA assessment areas in Puerto Rico are included in this evaluation.

Except for community development loans, the evaluation of BPPR's performance under the lending test covered the period January 1, 1998, through December 31, 1999. Community development loans, investment test and service test activity were evaluated for the period April 1, 1998, through December 31, 1999.

The evaluation included home purchase loans, refinancings of such loans and home improvement loans as reported under Regulation C -- Home Mortgage Disclosure Act ("HMDA") as well as small business and small farm loans (evaluated together) as reported under the CRA. HMDA-related loans were either originated or purchased by BPPR or its affiliates Popular Mortgage, Inc., Popular Finance, Inc. or Levitt Mortgage (reporting under the name Newco Inc.) Purchased loans, which represent approximately 10 percent of all HMDA-related loans used for analysis, include only purchases from third parties. Loans purchased between affiliates were not included in the analysis.

Of total HMDA-related loans, the bank accounted for 67 percent of the activity, while the combined affiliates accounted for the remaining 33 percent. Affiliate activity was concentrated primarily in refinancings (83 percent of total refinancings used in the analysis) and home purchase loans (57 percent of total home purchase loans used in the analysis). These levels of affiliate lending result from the bank's merger of its mortgage department into Popular Mortgage as of June 1998 when the bank began marketing home purchase and refinance mortgage loans through the subsidiary.

The bank reported 98 percent of the home improvement loans used in the analysis. HMDA-related loans were reported for Puerto Rico only as Regulation C is not applicable to dwellings in U.S. territories. Information for mortgage loans originated by BPPR in the USVI was provided by management separately.

Home improvement loans totaled 24,794 or 53 percent of all HMDA-related loan activity during the examination period. Because of this volume as well as the limited availability of affordable housing opportunities and the importance of home improvement lending as a documented credit need in the assessment areas, home improvement lending activity was given more weight in the evaluation than home purchase loans and refinancings. Refinancings received the least amount of weight since their volume is directly related to market interest rates.

For evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 Census income data. Distribution of loans to borrowers of different income levels was determined based on 1998 and 1999 HUD estimated median family income data, as applicable. Not all HMDA-related loans included information on borrower income; therefore, the total number of loans analyzed varies from the total used in the geographic distribution of loans.

HMDA-related loan performance was compared with that of the aggregate of all reporters, exclusive of BPPR and its affiliates, in the CMSA, PMSA and MSA assessment areas for 1998, the most recent year for which aggregate information was available. Aggregate HMDA information is unavailable for non-MSA geographies or the USVI. Small business loan performance was compared with that of the aggregate of all small business loan reporters on the same basis, except that aggregate information was available for all assessment areas except the USVI.

Examiners conducted interviews with four community contacts for this examination. Three contacts were made in Puerto Rico and one was for the USVI. Contacts included two governmental entities and two private entities engaged in activities to assist community development.

Errors were found in the small business loan data reported by the bank for the years 1998 and 1999. Management corrected and resubmitted data for both years for use at this examination. The bank's Public File contains corrected information for 1998.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

BPPR's record of meeting the credit needs of its assessment areas under the lending test is rated "outstanding."

Lending Activity

BPPR's lending activity reflected an excellent response to the credit needs of the bank's assessment areas. The bank addressed credit needs by offering, originating, or purchasing a significant volume of home improvement and home purchase loans, refinancings, and small business loans within the bank's assessment areas either directly or through its affiliates.

During the examination period, 77,477 loans totaling \$4.5 billion were originated or purchased by BPPR and its affiliates, consisting of 46,665 HMDA-related, 30,256 small business and 556 small farm loans. Of the HMDA-related loans originated, 53 percent or 24,794 loans were home improvement loans. For details, see Exhibit 2.

Since the previous examination (August 3, 1998), the volume of HMDA-related lending increased by approximately 9 percent on an annualized basis. The increase in volume is generally attributed to low interest rates during the examination period and to an increase in purchased loans. The mortgage company's acquisition of controlling interest in Levitt Mortgage also added to the volume of loan originations reported by BPPR affiliates.

On an annualized basis, the level of small business lending declined since the previous examination, but most of the difference is attributable to inaccuracies in the bank's reporting process which were corrected at this examination. Such errors also account for the increased volume of small farm lending.

Virtually all lending activity occurred within the bank's assessment areas and specifically in the Puerto Rico assessment areas, which represent the largest portion of the bank's assessment areas. Ninety-nine percent of HMDA-related and small business/small farm lending was in the Puerto Rico assessment areas, representing 46,215 and 30,459 loans, respectively.

Geographic Distribution of Lending

Overall, the analysis demonstrated excellent loan activity among the LMI geographies of the bank's assessment areas. For details, see Exhibits 5 through 8.

Home Improvement Loans

The geographic distribution of home improvement loans reflected excellent distribution among the various income geographies in the bank's assessment areas. The distribution of lending in

LMI geographies compares very favorably with the distribution of owner-occupied housing units, particularly in moderate-income geographies where the bank has the greatest opportunity to extend housing-related credit.

Home Purchase Loans

The overall geographic distribution of home purchase loans was excellent especially when considering the limited number of opportunities in LMI geographies and the fact that the majority of new government-sponsored affordable housing units in Puerto Rico are constructed outside of LMI geographies where vacant land is more plentiful. For the examination period, the level of home purchase lending activity in LMI geographies was commensurate with the distribution of owner-occupied housing units in the bank's assessment areas.

Refinancings

The geographic distribution of refinancings was good considering the performance context in which the bank operates. Refinance opportunities are even more limited than for home purchase because of liquidity (closing costs) issues and because homeowners who have received assistance under affordable housing programs generally find refinancing is not feasible. In addition, the refinance market in Puerto Rico has historically been concentrated with mortgage corporations, which have the majority share of the market.

Small Business Loans

The overall geographic distribution of small business loans reflected 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 in each assessment area.

Borrower Characteristics

Overall, the distribution of lending reflected good penetration among borrowers of different income levels and businesses of different sizes, given the housing cost and income issues documented in the Performance Context sections for Puerto Rico (beginning on page BB22) and the USVI (page BB79). For details, see Exhibits 9 through 12.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflected good distribution given the low income levels in Puerto Rico and the USVI. For the examination period, 16 percent of loan originations in the bank's combined Puerto Rico/USVI assessment area were to LMI borrowers. This is an improvement since the previous examination when 13 percent of home improvement loans were to LMI borrowers.

Home Purchase Loans

The distribution of home purchase loans across borrower income levels reflected acceptable distribution given the high housing costs and low income levels in the assessment areas. For the examination period, 2 percent of loans in the combined Puerto Rico/USVI assessment area were to LMI borrowers. This low level of lending to LMI borrowers appears to result from 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 approximately \$88 thousand, LMI families, whose income level would be \$13,200 at most, 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 approximately \$165 thousand and the income level of LMI families is at best \$33,840.

In Puerto Rico, the 1998 activity of all other HMDA reporters supports the contention that LMI borrowers are generally precluded from the housing market. Of all home purchase loans originated, only 1 percent was to LMI borrowers.

Refinancings

The distribution of refinancings across borrower income levels also reflected acceptable distribution given the performance context issues discussed above. For the examination period, 3 percent of loans in the Puerto Rico/USVI combined assessment area were to LMI borrowers. In Puerto Rico, 1998 HMDA aggregate activity shows that only 2 percent of refinancings were to LMI borrowers.

Lending to Small Businesses

The bank's record of lending 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. Of all small business loans, 73 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. While the level of loans for \$100 thousand or less was equivalent to the previous examination, the bank's level of lending to businesses with GAR of \$1 million or less increased since the previous examination when 64 percent of loans were to such businesses.

Community Development Lending

BPPR's community development lending performance was outstanding. During the examination period, community development loan commitments totaled \$111.7 million, of which \$105.7 million or 95 percent were new loan commitments originated since the previous examination. Total commitments are approximately double that reported at the previous examination; however, the earlier examination covered a 12-month period while this examination covered 22 months.

Community development lending in support of economic development initiatives totaled approximately \$50 million or 45 percent of total activity. Lending related to affordable housing activity totaled \$44 million or 39 percent of total activity and provided for the construction of 1,305 housing units in the bank's assessment areas. Community service lending totaled about \$18 million or 16 percent of total activity. Of total activity, approximately 77 percent was direct lending involving considerable coordination with government agencies and developers.

Eighty-one percent of community development lending activity or \$90.1 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 13.

Innovative and Flexible Lending Practices

BPPR offers a number of flexible loan products that it effectively uses to help serve the assessment area credit needs of LMI geographies and LMI individuals. These products primarily include Farmers Home Administration ("FHA") and Veterans Administration ("VA") mortgages as well as Rural Housing Services ("RHS") mortgage loans. Such products allow for lower down payment amounts and expanded debt-to-income ratios making it easier for applicants to qualify for a home loan. In Puerto Rico, the bank has developed a special small business loan product for LMI communities where local community development organizations have established economic development programs.

INVESTMENT TEST

The bank's investment performance is rated "outstanding." BPPR 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 14.

Dollar Amount of Qualified Investments

The level of qualified investments was excellent, totaling \$127.4 million at this examination. This activity represents a 53 percent increase since the previous examination when investments totaled \$83.4 million (although the previous examination period was only 12 months compared with the 22-month period of the current examination). New investments during the examination period totaled \$70.8 million and consisted primarily of collateralized mortgage obligations issued by the Puerto Rico Housing Bank & Finance Agency and the Puerto Rico Housing Finance Corporation.

Total investments consisted of \$125.3 million in investments in various agencies engaged in community development activity and \$2.1 million in charitable grants and contributions to organizations supporting community development projects and programs. Of total investments, virtually all were in Puerto Rico. In the USVI, investment opportunities were very limited. 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

Investments were traditional in nature, consisting of notes and bonds issued by governmental agencies engaged in qualified community development activity

Responsiveness of Qualified Investments to Credit and Community Development Needs

BPPR's investments demonstrated an excellent response to the most pressing credit and community development needs in the bank's assessment areas. Eighty-four percent, or \$106.9 million, of investments were directed to agencies engaged in affordable housing, a primary credit need in the bank's assessment areas. Approximately 15 percent or \$18.8 million of investments were directed toward economic development activity, and 1 percent or \$1.9 million were directed toward community services.

SERVICE TEST

BPPR's rating on the service test is "outstanding," based on the bank's record of providing an excellent level of retail banking and community development services in its assessment areas.

Retail Banking Services

Accessibility of Delivery Systems

BPPR's delivery systems are accessible to essentially all portions of the bank's assessment areas. As of December 31, 1999, BPPR operated 203 branches in its combined Puerto Rico and USVI assessment areas. Ninety-seven percent or 196 branches were in Puerto Rico. Branch locations were well dispersed throughout the assessment areas and adequately reflect assessment area demographics. Nineteen percent of all branches or 39 branches were located in LMI geographies, while 25 percent of geographies are LMI. LMI geographies contain 22 percent of the assessment area population. For details, see Exhibit 15.

In addition to the branch network, BPPR employs several alternative delivery systems that effectively enhance the distribution of services throughout its assessment areas. They include telephone and computer banking services allowing customers to access account information, pay bills, obtain product and service information, and begin the credit application process. Bank

branches are also equipped with automated teller machines (“ATMs”) and point of sales (“POS”) terminals.

ATMs

As of December 31, 1999, the bank operated 459 24-hour ATMs of which 256 were in bank branches and 203 were off-site in various retail and commercial locations. Of the total number of ATMs, 447 or 98 percent were in Puerto Rico. All LMI branch locations were equipped with ATMs, and 42 or 21 percent of the off-site ATMs were located in LMI geographies. This ATM network is an integral part of BPPR’s ability to provide financial services to persons who do not maintain an account relationship with banks, as discussed in the Community Development Services section below.

In addition, BPPR had approximately 22,000 POS terminals in about 18,500 participating commercial establishments throughout the island.

Loan Origination Offices

In the Puerto Rico assessment area, Popular Mortgage and Popular Finance operate a network of 67 loan origination offices of which 14 or 21 percent are located in LMI geographies. In addition to normal business hours which extend to 5 or 5:30 p.m. Monday through Friday, depending on location, both BPPR affiliates provide extended hours on Saturday.

Changes in Branch Locations

BPPR’s record of opening and closing branches has not adversely affected the accessibility of its delivery systems. Since the previous examination, the bank opened seven new branches, closed four and consolidated six branches. All such activity occurred in the Puerto Rico assessment area. Two new branches were located in LMI geographies and one consolidation occurred in an LMI geography, but no branch closings occurred in LMI geographies. No branches were opened or closed in the USVI assessment areas.

Branch closings and consolidations were conducted in accordance with BPPR’s written branch-closing policy, which conforms to the Joint Interagency Policy Statement Regarding Branch Closings. The bank’s policy requires weighing the impact of branch changes on the community, alternative sources of financial services, and branch profitability before the bank takes action. BPPR provided timely advance notification to affected customers and regulatory authorities regarding branch closures and consolidations.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

BPPR's business hours and services did not vary in a way that inconvenienced certain portions of its assessment areas, particularly LMI geographies and individuals. Regular banking hours were generally 8 a.m. to 5 p.m. Monday through Friday with extended hours available at about half of the bank's branches. Extended hours include evenings, Saturdays and, in Puerto Rico, Sundays.

The bank offers a full range of deposit and credit services at all branches. Credit application forms and access to mortgage specialists are available at all branch locations.

Community Development Services

BPPR provided a high level of community development services throughout its assessment areas including seminars, technical assistance to a variety of community development organizations, special products and services and in-kind contributions. Most activity was concentrated in the Puerto Rico assessment areas.

Seminars

During the examination period, BPPR sponsored or participated in approximately 25 seminars throughout its assessment areas on topics that included small business management, business plans, housing, personal and business retirement planning, and the benefits of electronic transfer accounts ("ETAs"). Seminars were sometimes presented in conjunction with local organizations, such as the Puerto Rico Housing and Finance Agency, the Puerto Rico Housing Network and the University of the Virgin Islands.

Technical Assistance

Bank management was proactive in providing technical assistance to support community development and affordable housing activities. Management and staff of the bank and its affiliates served as directors, advisors or committee members for at least 25 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; Neighborhood Housing Services ("NHS") of San Juan; Proyecto Peninsula de Cantera, a community development project for the LMI community of Cantera; Habitat for Humanity; the Virgin Island Housing Authority; and the University of the Virgin Islands and Sacred Heart University (Puerto Rico) Small Business Development Centers. Various commonwealth and municipal (San Juan) agencies have also benefited from technical assistance provided by the management and staff of Popular Mortgage, particularly in the areas of hurricane recovery and affordable housing.

In addition, Popular Securities, a registered broker-dealer with the Securities and Exchange Commission and an affiliate of Banco Popular, is very active in providing advisory services relative to the structuring, placement, and underwriting of financing programs and bond issues for Puerto Rico issuers. Such services have been provided to the government of the

Commonwealth of Puerto Rico and its housing agencies. During the examination period, Popular Securities acted as financial advisor for the placement of \$22.5 million of bonds for the Puerto Rico Housing Finance Corporation. Popular Securities also acted as co-manager for a \$104.5 million bond financing for the same agency. All financings were directed toward affordable housing efforts, principally Section 8 affordable rental housing.

Special Products and Services

BPPR 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. 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, BPPR has initiated a unique funds transfer service between customers in Puerto Rico and residents of the Dominican Republic. Fees are less than traditional wire transfer charges.

In order to provide financial services to those without banking relationships, BPPR has created Access 24. This service enables employees of various businesses participating in a payroll direct deposit system through BPPR to access some banking services without having an account relationship. Employees can access their wages and all of the bank's electronic services, including telephone bill payment, without charge, through the bank's extensive ATM and POS networks. 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.

Closely related to its Access 24 account, BPPR introduced an Electronic Transfer Account ("ETA") in October 1999 (January 2000 in the USVI) for recipients of Social Security and veterans benefits. The account, which the U.S. Treasury Department deems the most successful in the nation because of the significant number of accounts opened, allows participants access to their funds through ATM and POS networks and provides the ancillary services attached to the Access 24 account except bill payment.

In-kind Contributions

Various BPPR in-kind activities benefited local community development organizations. For example, the bank provides office space to the NHS of San Juan, and office and organizational support to the San Juan Habitat for Humanity. The bank regularly donates the use of its facilities for various meetings, conferences, and fundraisers conducted by local nonprofit community development organizations. In addition, the bank regularly donates furniture and equipment, including computers, to local community development organizations.

COMPLIANCE WITH FAIR LENDING LAWS

No credit practices were identified that violated the substantive provisions of the anti-discrimination 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

SUMMARY OF ASSESSMENT AREA DATA

INSERT

EXHIBIT 2

Total Assessment Area Loan Originations

January 1, 1998 – December 31, 1999

Loan Type	#	%	\$('000s)	%
HMDA Home Purchase	10,123	22	\$1,053,548	46
HMDA Refinance	11,748	25	976,488	42
HMDA Home Improvement	24,794	53	266,643	12
Total HMDA-related	46,665	60	\$2,296,679	51
Total Small Business	30,256	39	2,191,465	48
Total Small Farm	556	1	39,869	1
TOTAL LOANS	77,477	100%	\$4,528,013	100%

EXHIBIT 3

Summary of Branch Locations

As of December 31, 1999

Location	# of Branches	# in LMI Areas
CMSA 7442 (San Juan, PR)	132	30
MSA 6360 (Ponce, PR)	15	4
MSA 4840 (Mayaguez, PR)	14	2
MSA 0060 (Aguadilla, PR)	6	1
Non-MSA Puerto Rico	29	1
Puerto Rico Branches	196	38
St. Thomas, USVI	5	0
St. Croix, USVI	2	1
USVI Branches	7	1
TOTALS	203	39

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.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN PUERTO RICO

As of December 31, 1999, BPPR operated the largest bank branch network in Puerto Rico with 196 branches and 447 ATMs. Branches in Puerto Rico account for approximately \$7.3 billion in deposits, or about 95 percent of the bank's total branch deposits. Based on deposits reported to the Federal Deposit Insurance Corporation ("FDIC") as of June 30, 1999, BPPR's branch deposits represented 35 percent of all bank deposits in Puerto Rico. BPPR affiliates maintain loan origination offices in Puerto Rico as well. Popular Mortgage has 13 offices, and Popular Finance has 54 offices located throughout the island.

Of the total number of branches in Puerto Rico, 132 or 67 percent were in the CMSA 7442 (San Juan-Caguas-Arecibo, PR) assessment area. These branches account for \$5.5 billion or 76 percent of the bank's deposits in Puerto Rico.

During the examination period, BPPR and its affiliates originated or purchased 24,622 home improvement loans, 11,555 refinancings, 10,038 home purchase loans, and 30,457 small business and small farm loans in the overall Puerto Rico assessment area. This activity represents 99 percent of HMDA-related and small business loans analyzed at this examination in the bank's combined Puerto Rico and USVI assessment area. Of the HMDA-related and small business lending activity in the Puerto Rico assessment area, 72 percent was in the CMSA 7442 (San Juan-Caguas-Arecibo, PR) assessment area.

DESCRIPTION OF PUERTO RICO ASSESSMENT AREAS

The bank has nine assessment areas in Puerto Rico including one CMSA, three MSAs, and all non-MSA areas of Puerto Rico. The assessment areas include:

- CMSA 7442 (San Juan-Caguas-Arecibo, PR), consisting of PMSA 7440 (San Juan-Bayamon, PR), PMSA 1310 (Caguas, PR) and PMSA 0470 (Arecibo, PR).
- MSA 6360 (Ponce, PR).
- MSA 4840 (Mayaguez, PR).
- MSA 0060 (Aguadilla, 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.

PERFORMANCE CONTEXT

The bank's performance was evaluated in terms of the competitive, demographic and economic context in which it operates. BPPR is the largest bank in Puerto Rico, and it is the market leader in terms of deposits, home improvement lending and small business lending. However, mortgage corporations play the major role in providing refinance and home purchase credit, and the leading lender has a dominant share of the total market. Primary bank competitors include Banco Santander Puerto Rico, Citibank, N.A., Banco Bilbao Vizcaya and WesternBank. Major mortgage loan competitors include Doral Financial Corporation and R&G Mortgage Corporation.

Demographic and economic information also impact the bank's performance context and is discussed below. 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.

Demographic Characteristics

Combined, BPPR's assessment areas in Puerto Rico encompass the entire island. According to the 1990 Census, the total population of Puerto Rico is approximately 3.5 million, but current estimates suggest the population has risen to approximately 3.9 million. The highest concentration of population is in the San Juan-Bayamon PMSA where approximately 52 percent of the population (1.8 million) resides.

Income Characteristics

Income levels in Puerto Rico are low. According to the 1990 Census, approximately 59 percent of households live below the poverty level and 29 percent of all households receive some form of public assistance. In 1998, HUD estimated median family income levels ranged from a high of

\$16,100 in PMSA 7440 (San Juan-Bayamon, PR) to a low of \$11,100 in the non-MSA areas. Ranges increased to \$16,500 and \$11,600, respectively, in 1999. In 1998, the lowest HUD estimated median family income in the U.S. was \$25,500 in MSA 4880 (McAllen-Edinburg-Mission, TX), and in 1999, \$26,900 in MSA 1240 (Brownsville-Harlingen-San Benito, TX).

Of the 798 populated census tracts and block numbering areas (“BNAs”) used in the analysis, approximately 25 percent are LMI. Most LMI geographies are located in the municipality of San Juan.

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 are owner-occupied compared with an owner-occupancy rate in the U.S. of 64 percent. In Puerto Rico the level of owner-occupancy is generally consistent among moderate-, middle- and upper-income geographies, but in low-income geographies, the rate is only 21 percent. These demographics indicate limitations for one- to four-family owner-occupied residential lending in low-income areas compared with other geographies.

Owner-occupied housing units in Puerto Rico are concentrated in PMSA 7440 (San Juan-Bayamon, PR) which contains 52 percent of owner-occupied housing units and 73 percent of owner-occupied housing units in LMI geographies. A community contact consulted for this examination indicated that in the 52 “Special Communities” designated by the municipality of San Juan (areas that represent many of the LMI geographies in the municipality), approximately half of the homeowners do not have legal title to the property where their homes are constructed. Such circumstances would generally preclude normal financing and limit housing mobility.

As a result of the high cost of land, infrastructure and construction, housing prices are high in Puerto Rico especially in relation to income levels. Local appraisers estimated that the median sale price of a single-family home in Puerto Rico rose to approximately \$88 thousand at the end of 1999, an increase of about 3 percent from 1997. Currently, the price of new residential housing construction unrelated to affordable housing programs begins at approximately \$110 thousand. Median prices vary in relation to location. In the more rural non-MSA municipalities, the median sale price approximates \$62 thousand while in the metropolitan San Juan-Bayamon PMSA, the estimate is \$90 thousand.

Because of the wide disparity between housing costs and income levels, HUD has designated all of the municipalities (except for Rio Grande) in PMSA 7440 (San Juan-Bayamon, PR), PMSA 1310 (Caguas, PR), MSA 0060 (Aguadilla, PR), and MSA 4840 (Mayaguez, PR) as “Difficult Development Areas.” Difficult Development Areas are designated by the HUD Secretary as areas that have high construction, land and utility costs relative to the area median gross income. Such designations are used in administering the Federal Low Income Housing Tax Credit Program.

Comparing housing prices with income levels shows that owner-occupied housing is most often beyond the means of LMI families since they would have difficulty qualifying for a home loan or supporting a monthly payment at the median home value. Such disparity suggests a pressing need

for affordable housing programs. To that end, the government of Puerto Rico has provided 57,065 public housing units for rent, which house approximately 250 thousand persons throughout the island.

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”), which administers Act 124. Passed in 1993, Act 124 created 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, which is periodically updated. Because of the availability of less expensive land, Act 124 construction is now generally outside the LMI geographies. Of the Act 124 projects in the sales phase during this examination period, only 40 percent were in LMI geographies.

Previous community contacts 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 Estudios Technicos, Inc.’s study conducted for the Puerto Rico Bankers Association, *Demand for Housing in Puerto Rico 1994-1998*, indicates a high level of inadequate housing in Puerto Rico because of deterioration, inadequate original construction and overcrowding. The study estimates that almost 90 thousand housing units throughout Puerto Rico need rehabilitation, indicating a further demand for home improvement loans. The area with the greatest need is the San Juan-Bayamon PMSA where an estimated 38 thousand housing units need rehabilitation.

During the examination period, the need for adequate, affordable housing and housing rehabilitation was intensified when Hurricane Georges struck on September 21, 1998, destroying a significant number of homes and damaging thousands more. Damage was most severe in the mountainous interior and the southeast and southwest coasts where a larger percentage of homes were of less stable construction.

Labor, Employment and Economic Characteristics

The primary employment sectors in Puerto Rico include service, government and manufacturing, which at the end of 1997 employed 48 percent, 25 percent and 24 percent of the workforce, respectively. The remaining portion of the workforce is employed in the agricultural sector. The service sector, primarily driven by tourism, constitutes approximately 58 percent of the island’s gross domestic product (“GDP”). The industrial sector, which has been the mainstay of the economy, now represents just 41 percent of the GDP. Important manufacturing industries include pharmaceuticals, electronics, textiles, petrochemical and processed foods. Many Fortune 500 companies have significant manufacturing operations on the island, including Johnson & Johnson, American Home Products, General Electric, Hewlett-Packard, Sara Lee Corporation and Intel Corporation. Agriculture, which historically was an important segment of the island’s

economy, now represents only the remaining 3 percent of the GDP. Dairy and livestock, rather than crops, are of primary importance.

The impact of manufacturing activity was directly linked to the enactment of Section 936 of the U.S. Internal Revenue Code, which provided tax incentives to U.S. corporations setting up operations in Puerto Rico. Tax code changes in May 1996 repealed Section 936 and provided for a ten-year phase-out period. Such changes, coupled with an increase in the minimum wage and corporate restructuring, has caused the loss of approximately 12 thousand manufacturing jobs from March 1997 to March 1999, many in the textile sector. In order to compensate for declines in the manufacturing sector, the government initiated an economic plan to diversify the economy focusing on tourism and high-technology services. The 1998 Tax Incentives Act was passed in order to retain and stimulate business development.

The devastation from Hurricane Georges did not adversely impact the island's overall economy. The influx of funds from government aid, insurance payments, the Red Cross, and private donations kept the economy active and enabled the GDP to maintain 1997 levels in 1998, and even grow to approximately 3 percent in 1999. The hurricane cost insurers an estimated \$2.5 billion and the Federal Emergency Management Agency ("FEMA") spent over \$6.9 billion for the recovery effort. The construction industry, which had significantly expanded before the storm because of new private projects and government initiatives including highways, water pipelines and mass transit, grew even more as a result of the hurricane. Tourism declined, but by the winter of 1999 most hotels had reopened. The agricultural sector, primarily in the southern part of the island, sustained losses of about \$300 million. Other sectors suffered from a loss of workdays resulting from power losses and workplace closures because of structural damage.

Unemployment, which is at its lowest level in 25 years, is high in Puerto Rico compared with the U.S. In 1998, the annual unemployment rate was 13.3 percent compared with 4.5 percent in the U.S. In 1999, the unemployment rate in Puerto Rico declined to 11.7 percent compared with the U.S. rate of 4.2 percent. This decline is not only the result of an increase in employment, but a reduction in the labor force because of the migration of some skilled workers, especially in manufacturing. Such information suggests that loans to assist in the creation or expansion of businesses and jobs would greatly benefit the overall economy.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN PUERTO RICO

LENDING TEST

BPPR's rating on the lending test is "outstanding."

Lending Activity

BPPR's lending activity reflected an excellent response to assessment area credit needs. Credit needs were addressed by offering, originating and purchasing a significant volume of HMDA-related and small business loans in the bank's assessment areas.

During the examination period, 76,672 loans totaling \$4.4 billion were originated or purchased, consisting of 46,215 home purchase, refinance and home improvement loans reported under HMDA, 29,901 small business loans, and 556 small farm loans. Of HMDA-related loans, 24,622 loans or 53 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 4.

Most BPPR lending activity took place in CMSA 7442 (San Juan-Caguas-Arecibo, PR). Seventy-four percent of HMDA-related loans and 69 percent of small business/small farm loans, representing 34,249 and 20,905 loans, respectively, were originated in the San Juan CMSA. This CMSA contains 64 percent of the population and 67 percent of the BPPR branches in the Puerto Rico assessment areas.

In Puerto Rico, mortgage corporations originate most refinance and home purchase loans. BPPR and its affiliates generally rank third among originators of such products, and in 1998 reported approximately 13 percent of all refinance originations and 11 percent of all home purchase originations reported in Puerto Rico. However, BPPR is the primary provider of home improvement and small business loans on the island, originating 65 percent of all such loans in 1998.

Geographic Distribution of Lending

Overall, the analysis demonstrated excellent geographic distribution of loan activity in the bank's assessment areas considering the level of lending opportunities available in specific geographies. For HMDA-related loans, conclusions were based primarily on performance in moderate-income geographies. Very low levels of income and owner-occupied housing units, as noted in the Performance Context, make it difficult to extend housing-related credit in low-income areas. Reports and maps detailing the bank's lending during the examination period did not reveal any apparent unexplained conspicuous gaps in loan distributions. For data used to evaluate the bank's geographic distribution of loans, see Exhibits 5 through 8.

Home Improvement Loans

The overall geographic distribution of home improvement loans reflected excellent penetration in the bank's assessment areas given the constraints discussed above. During the examination period, 22 percent of home improvement loans were in LMI geographies while 20 percent of owner-occupied housing units in the assessment areas are located in LMI geographies.

Performance was strongest in moderate-income geographies where the portion of home improvement loans in such geographies exceeded the portion of owner-occupied housing units within such geographies. In low-income geographies the level of loans was inconsistent with the level of owner-occupied housing units, but lending levels were consistent with the income issues previously noted and the performance of the aggregate of HMDA lenders, which in 1998, originated only 1 percent of home improvement loans in low-income geographies.

Performance was strong in CMSA 7442 (San Juan-Caguas-Arecibo, PR) where 72 percent of home improvement loans were originated or purchased. In MSA 6360 (Ponce, PR) weakness was noted in the bank's performance because of the lack of activity in the municipality of Ponce, where the greatest opportunity exists for lending in LMI geographies.

In 1998, BPPR's home improvement loan performance in LMI geographies was equivalent to the aggregate performance of all other HMDA reporters in Puerto Rico.

Home Purchase Loans

The overall geographic distribution of home purchase loans was excellent when considering performance context issues already discussed relative to limited opportunities. For the examination period, 20 percent of home purchase loans were in LMI geographies while such geographies contain 20 percent of owner-occupied housing units. At the previous examination 23 percent of BPPR loans were in LMI geographies.

Performance was very good in moderate-income geographies where 18 percent of lending occurred and particularly strong in low-income geographies where the percentage of loans exceeded the percentage of owner-occupied housing units. Performance in low-income geographies was the result of construction of new housing units in a low-income census tract of San Juan (located in CMSA 7442), many of which were financed by BPPR.

In CMSA 7442 (San Juan-Caguas-Arecibo, PR), performance was excellent when considering performance context issues and the very high level of the bank's performance compared with the aggregate of all other HMDA reporters. Overall performance also was excellent in MSA 6360 (Ponce, PR) primarily because of the construction of affordable homes in the municipality of Juana Diaz, many of which BPPR financed.

In 1998, BPPR home purchase lending in LMI geographies substantially exceeded that of the aggregate of all other HMDA reporters. While 31 percent of BPPR loans were in LMI geographies, the aggregate of all other HMDA reporters had 20 percent of loan originations in such geographies.

Refinancings

Throughout the bank's various assessment areas, the geographic distribution of refinance loans was good, considering the performance context in which the bank operates. Refinance opportunities are even more limited than home purchase because of the additional impact of liquidity (closing costs) issues and the fact that homeowners who have received assistance under affordable housing programs generally find that refinancing is not financially prudent. Most important, the refinance market has historically been concentrated with mortgage corporations that control the market with one long-established lender having a significant market share.

During the examination period, approximately 12 percent of BPPR refinance activity was in LMI geographies while 20 percent of owner-occupied housing units are in LMI geographies. Of total refinance lending, 12 percent was in moderate-income geographies while less than 1 percent was in low-income geographies.

Although BPPR's 1998 refinance performance in LMI geographies was less than the aggregate of other HMDA reporters (a group that contains mortgage corporations), its performance exceeded that of other bank lenders and their affiliates, all of which underperformed the aggregate.

Small Business Loans

The overall geographic distribution of small business loans reflected excellent penetration throughout all assessment areas. Small business lending in each of the bank's assessment areas was comparable to 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. In 1998 the bank's performance in LMI geographies exceeded that of the aggregate of all other small business lenders. While BPPR originated 19 percent of its small business loans in LMI geographies, the aggregate of all other small business lenders originated 15 percent of their loans in LMI geographies. In addition, aggregate information shows that BPPR originated 70 percent of all business loans in the LMI geographies of Puerto Rico.

Borrower Characteristics

The overall distribution of loans reflected good penetration among borrowers of different income levels and businesses of different sizes. BPPR's distribution of home improvement, home purchase and refinance loans reflected acceptable penetration among borrowers of different income levels, given the wide disparity between housing prices and incomes which generally places owner-occupied housing beyond the reach of LMI families. This disparity also makes the available market for refinancings to LMI families very limited. For these reasons, home purchase and refinance lending was not significantly weighted in rating the bank's performance.

Home improvement lending received significant weight in the evaluation since community contacts cited such lending as a critical credit need and as an alternative for LMI families unable to purchase a home. Also, home improvement lending gives the bank the best opportunity to provide housing-related lending to LMI borrowers since loan amounts are smaller and therefore more affordable to them than purchase and refinance loans. In addition, performance relative to moderate-income borrowers was given the most weight in the evaluation since the income level of low-income borrowers (at most \$8,250) precludes them from most housing-related loans.

Exhibits 9 through 12 display the data used to evaluate the distribution of the bank's loans.

Home Improvement Loans

The overall distribution of home improvement loans among borrowers of different income levels was good given the bank's performance context, as discussed above. For the examination period, 15 percent of loans were made to LMI borrowers, which is an improvement since the previous examination when 13 percent of home improvement loans were to LMI borrowers. As expected, the level of home improvement loans to low-income borrowers (4 percent) did not compare favorably with the level of low-income families (25 percent). However, 11 percent of loans were to moderate-income borrowers, which constitute 16 percent of families in the overall Puerto Rico assessment area.

Performance was strongest in CMSA 7442 (San Juan-Caguas-Arecibo, PR) where 72 percent of home improvement loans were originated. Weakness and inconsistencies were noted in the bank's overall performance in MSA 6360 (Ponce, PR), MSA 4840 (Mayaguez, PR), MSA 0060 (Aguadilla, PR), and the non-MSA portions of the assessment area. However, they were not considered significant inasmuch as performance was commensurate with the aggregate, and the very low income levels in several of these assessment areas impacted the lending opportunities.

A review of the 1998 activity of all other HMDA reporters indicates that 16 percent of home improvement loans were to LMI borrowers. Of BPPR's home improvement loans, 14 percent were to LMI borrowers.

Home Purchase Loans

The distribution of home purchase loans across borrower income levels reflected acceptable distribution given the performance context in which the bank operates. 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 income levels, which generally precludes LMI borrowers from the housing market. As noted in the Performance Context section of this report, the median housing price in Puerto Rico during the examination period was approximately \$88 thousand. LMI families, whose income level averages approximately \$11 thousand or less, would generally be unable to finance the purchase of a home in this market.

The 1998 activity of all other HMDA reporters in Puerto Rico supports the contention that LMI borrowers are generally precluded from the mortgage market. Of all home purchase loans

reported, only 1 percent was to LMI borrowers. Of BPPR's loans, 2 percent were to LMI borrowers.

Refinancings

The distribution of refinancings among borrowers of different levels was also acceptable, given performance context. For the examination period, 3 percent of loans were to LMI borrowers. In 1998, both BPPR and the aggregate of other HMDA reporters had 2 percent of refinancings to LMI borrowers.

Lending to Small Businesses

Overall, the bank's record of lending to businesses of different sizes was excellent and consistent among the various Puerto Rico assessment areas. Eighty-three percent of the bank's small business loans were for amounts of \$100 thousand or less. The size of such loans averaged \$31,140, an amount that would typically meet the credit needs of smaller businesses.

Of the bank's small business loan originations in Puerto Rico, 73 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. This is an increase since the previous examination when 64 percent of the bank's loans were to businesses with GAR of \$1 million or less.

BPPR's overall 1998 performance was excellent when compared with all other small business lenders in Puerto Rico. BPPR reported 82 percent of small business loan originations for amounts of \$100 thousand or less, while the aggregate of all other lenders was 74 percent for such loan originations. Regarding loans to businesses with GAR of \$1 million or less, BPPR reported 80 percent of small business loan originations to such businesses, while the aggregate of all other lenders was 86 percent of such loans.

Community Development Lending

BPPR's level of community development lending in Puerto Rico was excellent. During the examination period, community development loan commitments totaled \$90.1 million in Puerto Rico, of which \$84.9 million or 94 percent were commitments originated since the previous examination.

Community development lending in support of affordable housing initiatives totaled \$43.8 million or 48 percent of total activity and provided for the construction of 1,305 housing units in the bank's assessment areas. As previously noted, affordable housing was identified as the most critical credit need in the bank's assessment areas. Lending related to economic development activity totaled \$28.7 million or 32 percent of total activity while community service lending totaled \$17.6 million or 20 percent of total activity.

Most community development lending was concentrated in CMSA 7442 (San Juan-Caguas-Arecibo, PR) where commitments totaled approximately \$69.6 million or 77 percent of total activity 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 13.

Innovative and Flexible Lending Practices

BPPR offers a variety of loan products that employ flexible lending practices to address the credit needs of LMI geographies and individuals. This is primarily achieved by making flexible products marketed by agencies or government entities available throughout the bank's assessment areas. During the examination period, the bank and its affiliates originated 5,068 loans (\$397.6 million) under these flexible programs of which 1,258 specifically assisted LMI geographies and 1,175 assisted borrowers under the Commonwealth's Act 124 affordable housing program described on page BB24.

In addition, the bank developed a special small business loan product with flexible lending criteria that it makes available in LMI communities where local community development organizations have established economic development programs. During the examination period, two programs were in place resulting in six loans totaling \$60,500.

Flexible loan products include:

Farmers Home Administration ("FHA") Loans

The bank is active in offering FHA mortgage loans, which allow 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. FHA programs allow for as little as a 3 percent down payment, and during the Hurricane Georges recovery period, special programs allowed for 100 percent FHA financing, including closing costs. During the examination period, 4,745 FHA loans were originated for \$362 million. Of that total, 1,198 or 25 percent, were in LMI geographies. Included in total FHA loans were 1,175 home purchase mortgages totaling approximately \$108 million originated under the Commonwealth's Act 124 affordable housing program, making new housing units available to lower income borrowers.

Veterans Administration ("VA") Loans

Targeted to veterans, reservists and active military personnel, VA mortgages 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, 116 VA loans were originated for \$13 million. Of the total, 19 or 16 percent were in LMI geographies.

Farmers Service Agency or Rural Housing Services Loans

Loans under this program, formerly the Farmers Home Administration (“FmHA”), are directed toward assisting households in obtaining adequate, but modest, housing facilities in rural areas. Applicants under the program cannot have incomes that exceed established guidelines, much the same as the Commonwealth’s Act 124 program. Underwriting and down payment standards have been expanded and are more flexible than conventional mortgage products. During the examination period, 203 loans were originated for \$22 million. Of the total, 41 or 20 percent were in LMI areas.

Fannie Mae Mixed-use Mortgages

Available in communities designated by the municipality of San Juan as being in need of economic revitalization, these mortgages provide financing for properties used for both commercial and residential purposes. Generally, mixed-use loans are not readily available in the mortgage market. Popular Mortgage collaborated with Fannie Mae to bring the product to the Puerto Rico market and continues to work with them to enhance the product’s availability. Introduced in April 1999, the program originated four mixed-use mortgages totaling \$565 thousand.

Micro Enterprise Loans

In LMI communities where local community development organizations have established economic development programs for area residents and businesses, BPPR has developed a micro enterprise loan product. Available at a fixed interest rate rather than variable, credit criteria for these loans is more flexible to account for lack of borrower credit experience or unfavorable credit history. Loans are available for start-up and established businesses.

INVESTMENT TEST

In Puerto Rico, BPPR’s rating on the investment test is “outstanding.” The bank 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 14.

For the examination period, qualified investments in Puerto Rico totaled \$127.5 million, which consists of \$125.3 million in investments in various agencies engaged in community development activity and \$2.2 million in charitable grants and contributions to organizations supporting community development projects and programs. Of total investments, \$112.3 million or 88 percent are island-wide programs. 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.

SERVICE TEST

BPPR'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.

Retail Banking Services

Accessibility of Delivery Systems

BPPR's branch delivery system was accessible to essentially all portions of the bank's assessment areas in Puerto Rico. As of December 31, 1999, BPPR operated 196 retail branches in Puerto Rico, the largest such network on the island. Of the total number of branches, 24 were in-store facilities located inside grocery and convenience stores, and 9 were "Expresso" branches, which primarily focus on teller facilities, providing limited customer services.

Branch locations were well dispersed throughout the Puerto Rico assessment areas and adequately reflected assessment area demographics. While 19 percent of all branches are located in LMI geographies, 25 percent of geographies are LMI. LMI locations serve the 23 percent of the population that reside in LMI geographies. For details, see Exhibit 15.

Branches were concentrated in the densely populated CMSA assessment where 132 or 67 percent of branches are located; however, BPPR also has locations in the most rural municipalities of the island. In 26 of the island's 78 municipalities, BPPR is the only bank providing financial services. These 26 municipalities have an average population of approximately 17 thousand, ranging from a low of 6,206 (Maricao) to a high of 33,837 (Coamo).

Alternative Delivery Systems

In addition to the branch network, BPPR employs several alternative delivery systems that effectively enhance the distribution of services throughout its assessment areas. Alternative delivery systems include telephone and computer banking, as well as the following:

ATMs

As of December 31, 1999, the bank operated 447 ATMs throughout Puerto Rico, the largest such network on the island. Of the total number of ATMs, 244 were in BPPR branches and 203 were off-site in various supermarkets and office buildings. All LMI branch locations were equipped with ATMs and 42 or 21 percent of off-site ATMs were located in LMI geographies. The total number of ATMs includes 57 new installations since the previous examination, 13 at BPPR branch locations and 44 off-site. Thirteen or 23 percent of new ATMs were placed within LMI geographies.

Loan Origination Offices

Both Popular Mortgage and Popular Finance, affiliates of BPPR, operate loan origination offices throughout Puerto Rico. Popular Mortgage, which makes a full range of home purchase and refinance mortgage loans available, operates 13 offices located in 12 separate municipalities. Of the 13 offices, 4 or 31 percent are located in LMI geographies.

Popular Finance, which provides personal and second mortgage loans, operates 54 offices throughout Puerto Rico, of which 10 or 19 percent are located in LMI geographies. The largest concentration of Popular Finance offices (22) is in PMSA 7440 (San Juan-Bayamon, PR).

In addition to normal weekday business hours which extend to 5 p.m. or 5:30 p.m., depending on location, both affiliates provide extended hours on Saturday.

Changes in Branch Locations

BPPR's record of opening and closing branches has not adversely affected the accessibility of its delivery systems. Since the previous examination, the bank opened seven new branches, consolidated six and closed four in the Puerto Rico assessment areas. Of the new branches, two or 29 percent were located in LMI geographies. No closings occurred in LMI geographies, but one consolidation in the San Juan CMSA was in an LMI geography.

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. During the week all branches are open at least eight hours a day, generally between 8 a.m. and 4 p.m. Since hours are tailored to meet local needs, however, regular schedules vary somewhat. In addition, the bank made extended hours available at approximately 50 percent of its branches. Extended hours included Thursday and/or Friday evenings and Saturdays. Also, Sunday hours were available at 37 branch locations. Of the branches providing expanded hours, 40 percent are located in LMI geographies.

The bank offers a full range of deposit and credit services at all branches. Popular Mortgage representatives are available via direct phone lines in branches or through a toll-free number.

They also staff certain bank branches on a regularly scheduled basis and meet with applicants at their home, office or any BPPR branch.

Community Development Services

BPPR provided a high level of community development services in Puerto Rico including seminars, technical assistance to various community development organizations, special products and services and in-kind contributions. Virtually all of the activities discussed in the Institution portion of this report on page BB16 occurred in Puerto Rico, and all of the special products and services described there are available in Puerto Rico.

ASSESSMENT AREA ANALYSES

CMSA 7442
(SAN JUAN-CAGUAS-ARECIBO, PR)

Overall performance in the CMSA 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 customers of different income levels and businesses of different sizes, given the performance context.
- BPPR's delivery systems were readily accessible to all portions of the CMSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN CMSA 7442

BPPR's presence is concentrated in CMSA 7442 where, as of December 31, 1999, the bank maintained 132 branches representing 67 percent of its branches in Puerto Rico. The branches had approximately \$5.5 billion in deposits or about 76 percent of the bank's total deposits in Puerto Rico. The largest number of branches was in PMSA 7440 (San Juan-Bayamon, PR) where 113 branches or 86 percent of all branches in the CMSA were located. In addition, Popular Finance operated 31 loan origination offices in the CMSA while Popular Mortgage maintained 9 loan offices.

During the examination period, BPPR and its affiliates originated or purchased 17,679 home improvement loans, 9,060 refinancings, 7,510 home purchase loans, and 20,905 small business and small farm loans in the CMSA. This activity represents approximately 74 percent of HMDA-related and 69 percent of small business loans originated or purchased by the bank and its affiliates in Puerto Rico during the examination period. Of the lending activity in the CMSA, 80 percent of HMDA-related loans and 82 percent of small business loans were in PMSA 7440 (San Juan-Bayamon, PR). The Caguas PMSA represented 15 percent of HMDA-related loans and 11 percent of small business loans, while the remainder of activity was in PMSA 0470 (Arecibo, PR).

PERFORMANCE CONTEXT

The bank's performance was evaluated in terms of the competitive, demographic and economic context in which it operates. Within the CMSA assessment area, the financial services market is highly competitive. BPPR has approximately 31 percent of market deposits in the CMSA assessment area as of June 30, 1999. Primary competitors include Banco Santander Puerto Rico and Citibank, N.A.. In addition, non-bank competitors, including mortgage corporations such as Doral Financial Corporation and R&G Mortgage Corporation, play a major role in providing credit services. Demographic and economic information also impact the bank's performance context and is discussed below. For details, see Exhibit 1.

Demographic Characteristics

The CMSA assessment area encompasses most of the eastern portion of the island of Puerto Rico and includes three PMSAs and 38 municipalities. Based on the 1990 Census, the population of CMSA 7442 is 2.3 million or approximately 64 percent of the total population of Puerto Rico. Of the total population in the CMSA, 1.8 million, or 78 percent, reside in the PMSA 7440 (San Juan-Bayamon, PR) portion of the CMSA.

Income Characteristics

The 1990 median family income for CMSA 7442 is \$11,089, about 11 percent higher than the overall median family income for Puerto Rico of \$9,988. In 1998, the HUD estimated median family income for the three PMSAs making up the CMSA ranged from \$16,100 in PMSA 7440 (San Juan-Bayamon, PR) to \$15,000 in PMSA 1310 (Caguas, PR) to \$12,700 in PMSA 0470 (Arecibo, PR). In 1999, the figures increased to \$16,500, \$15,600 and \$12,700, respectively. Based on the 1990 Census, of the 507 census tracts considered for housing analysis, 154 or 30 percent are LMI. Most LMI tracts are found in the San Juan-Bayamon PMSA, primarily in the municipality of San Juan.

Housing Characteristics

The CMSA contains approximately 768 thousand housing units, of which 64 percent are owner-occupied. About 26 percent of housing units are rentals with the remainder being vacant. While the level of owner-occupancy among moderate-, middle-, and upper-income census tracts is consistent with the overall figure, the level of owner-occupancy in low-income census tracts is only 18 percent, with 75 percent of housing units being rental units.

As previously noted, all of the CMSA assessment area except the Arecibo PMSA and the municipality of Rio Grande in PMSA 7440 (San Juan-Bayamon, PR) have been designated as a "Difficult Development Area" by HUD because of the high cost of construction, particularly when compared with income levels.

Labor, Employment and Economic Characteristics

As in all of Puerto Rico, the economy in the CMSA is very positive. Unemployment levels have reached their lowest levels in almost ten years. In 1998 the average annual unemployment rate for the CMSA was 12.9 percent and in 1999 the rate declined to 11.2 percent. The highest unemployment levels are found in the Arecibo PMSA, ranging from approximately 16 percent in 1998 to 13 percent in 1999. The lowest jobless levels are in the San Juan-Bayamon PMSA and range from approximately 11 percent in 1998 to 9 percent in 1999.

PMSA 7440 (SAN JUAN-BAYAMON, PR)

PMSA 7440 is the most significant segment of the CMSA assessment area. It contains the largest number of the bank's branches and deposits and provides the greatest opportunities for lending in

LMI geographies and to LMI borrowers and small businesses. Of the lending activity in the CMSA, 80 percent of all HMDA-related loans and 82 percent of all small business loans originated in the CMSA were originated in the San Juan-Bayamon PMSA. Because of this PMSA's significance in the CMSA assessment area, separate performance context information is provided.

PERFORMANCE CONTEXT

Demographic Characteristics

Encompassing 30 municipalities, PMSA 7440 (San Juan-Bayamon) 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 is the island's capital and center of finance, commerce and government, and it has the highest concentration of population in Puerto Rico (approximately 438 thousand).

Income Characteristics

The 1998 and 1999 HUD estimated median family income for PMSA 7440 (San Juan-Bayamon, PR) is \$16,100 and \$16,500, respectively, the highest in Puerto Rico. Based on the 1990 Census, of the 412 census tracts used in the analysis, 135 or 33 percent are LMI tracts. Only 14 census tracts are low-income, and all but one is 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 803 thousand persons living in LMI geographies in Puerto Rico, 573 thousand or 71 percent reside in this PMSA.

Housing Characteristics

Of the 560,097 occupied housing units in this PMSA, 394,433 or 70 percent are owner-occupied, according to the 1990 Census. 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 where the level of owner-occupancy is only 55 percent. Housing in the low-income census tracts (where the owner-occupancy level is only 21 percent) primarily influences this statistic. As previously noted, in 52 communities designated by the municipality of San Juan as needing special economic assistance, as many as 60 percent of homeowners may not have title to the property on which their homes are built, thus limiting housing-related lending opportunities even further.

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 is an estimated \$90 thousand. In municipalities such as Dorado and Guaynabo, the median cost was approximately \$200 thousand and \$137 thousand, respectively. The lowest median housing costs (\$57 thousand range) were found in the more rural municipalities.

As discussed on page BB24 in the description of the Puerto Rico assessment areas, 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 need rehabilitation. The area most in 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. Manufacturing, construction, tourism, and other services are the dominant industries. While jobs in construction, tourism, and other services grew, manufacturing jobs declined.

The San Juan-Bayamon PMSA has the lowest unemployment level in Puerto Rico. In 1998, the annual unemployment rate was 10.9 percent compared with an island-wide rate of 13.3 percent. For 1999, unemployment levels declined to 9.4 percent and 11.7 percent, respectively.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN CMSA 7442
(SAN JUAN-CAGUAS-ARECIBO, PR)**

LENDING TEST

Geographic Distribution of Lending

The analysis demonstrated excellent geographic distribution of loan activity in the CMSA assessment area. For HMDA-related loans, conclusions were based primarily on performance in moderate-income geographies. Very low levels of income and owner-occupied housing units, as noted in the Performance Context, make it difficult to extend housing-related credit in low-income areas. For details, see Exhibit 5 through 8.

Home Improvement Loans

The overall geographic distribution of home improvement loans reflected excellent performance throughout the CMSA assessment area. During the examination period, 27 percent of loans were in LMI geographies, where 26 percent of owner-occupied housing units are located. This is a decline since the previous examination, however, when 29 percent of home improvement loans were in LMI geographies.

Performance was consistent in the three PMSAs overall and varied only slightly in some municipalities. In the San Juan-Bayamon PMSA, overall performance was strong with 30 percent of loans in LMI geographies. This compares favorably with the 28 percent of owner-occupied housing units in the PMSA located in LMI geographies but represents a decline from the previous examination when 33 percent of loans were in LMI geographies. In 1998, BPPR's level of home improvement lending in the LMI geographies of the CMSA assessment area exceeded that of the aggregate of other HMDA reporters, primarily because of strong performance in PMSA 7440 (San Juan-Bayamon, PR).

Home Purchase Loans

Given the context in which the bank operates, BPPR exhibited excellent home purchase performance in the LMI geographies of the CMSA assessment area, and its 1998 performance in the overall CMSA exceeded that of the aggregate of all other HMDA reporters. Overall, 23 percent of BPPR loans were in LMI geographies while 26 percent of owner-occupied housing units are in LMI geographies.

As discussed in the performance context, the level of owner-occupancy in LMI geographies presents limited opportunities for home purchase lending especially when considering that most affordable housing units are constructed outside of LMI areas. Such construction patterns are the result of high costs, as described in HUD's designation of Difficult Development Area for PMSA 7440 (San Juan-Bayamon, PR) and PMSA 1310 (Caguas, PR). Lack of new housing alternatives nearby or within LMI communities limits the turnover of existing units in LMI geographies. Also, the lack of property titles in some areas of San Juan precludes traditional financing should alternatives become available.

Performance was strongest in PMSA 0470 (Arecibo, PR) primarily because the area is more rural, allowing for lower costs of land for new construction. In PMSA 7440 (San Juan-Bayamon, PR), performance was good and far exceeded that of the 1998 performance of the aggregate of other HMDA reporters. In PMSA 1310 (Caguas, PR), however, performance was weak and lagged behind that of the aggregate of other HMDA reporters. This PMSA is experiencing strong housing growth because of its proximity to employment opportunities, but the vast majority of growth is outside the PMSA's moderate-income geographies (There are no low-income geographies in the PMSA.) Nonetheless, opportunities exist, based on the activity of the aggregate.

Refinancings

Refinance lending in the LMI geographies of the CMSA assessment area was good considering performance context issues related to opportunity and the substantial competition from established mortgage corporations dominating the refinance market.

Overall, 15 percent of refinancings were in LMI geographies, which contain 26 percent of owner-occupied housing units. When compared with the performance of the aggregate of HMDA reporters for 1998, a group that contains mortgage corporation lenders, BPPR performance was weak. However, BPPR's performance exceeded that of other banks and their affiliates lending in the assessment area.

Performance in PMSA 7440 (San Juan-Bayamon, PR) was consistent with the bank's performance in the overall CMSA and was somewhat stronger in PMSA 0470 (Arecibo, PR) and PMSA 1310 (Caguas, PR).

Small Business Loans

The geographic distribution of small business loans was excellent in the CMSA with 23 percent of loans in LMI geographies. Of the small business loans in the CMSA, 82 percent were originated in PMSA 7440 (San Juan-Bayamon, PR), where 58 percent of the bank's branches were located and 52 percent of the island's population resides. Of the loans in the PMSA, 24 percent were in LMI geographies.

BPPR's performance exceeded that of the aggregate of all other small business reporters in 1998. BPPR had 25 percent of loans in LMI geographies while the aggregate had 20 percent.

Borrower Characteristics

The overall distribution of borrowers reflected good penetration among families of different income levels and businesses of different sizes based on the same criteria used for the overall Puerto Rico analysis, as described in the Borrower Characteristics section beginning on page BB28. For details, see Exhibits 9 through 12.

Home Improvement Loans

The overall distribution of home improvement loans among borrowers of different income levels was good. For the examination period, 18 percent of loans were to LMI borrowers. This is an improvement since the previous examination when 15 percent of home improvement loans were to LMI borrowers. As expected, the level of home improvement loans to low-income borrowers (5 percent) did not compare favorably with the level of low-income families (25 percent). However, 13 percent of loans were to moderate-income borrowers, which constitute 16 percent of families in the CMSA. In 1998, BPPR's performance was consistent with that of the aggregate of all other HMDA reporters, with the bank originating 16 percent of loans to LMI borrowers while the aggregate originated 17 percent.

Performance in PMSA 7440 (San Juan-Bayamon, PR) and PMSA 1310 (Caguas, PR) was consistent with the overall performance in the CMSA. Apparently weak performance in PMSA 0470 (Arecibo, PR) was attributed to the area's lower income levels and higher unemployment rates and was not considered significant. In the San Juan-Bayamon PMSA, 19 percent of home improvement loans were to LMI borrowers, an increase from the previous examination when 16 percent of home improvement loans were to LMI borrowers. BPPR performance in PMSA 7440 (San Juan-Bayamon, PR) was consistent with the performance of the aggregate of all other 1998 HMDA reporters in the PMSA.

Home Purchase Loans

The distribution of home purchase loans across borrower income levels was acceptable given the performance context issue describing the gap between income levels and housing costs. For the examination period, 2 percent of loan originations were to LMI borrowers.

The 1998 activity of all other HMDA reporters in the CMSA supports the contention that LMI borrowers are generally precluded from the mortgage market. Of home purchase loans, only 1 percent of the aggregate were to LMI borrowers. Of BPPR's loans, 2 percent were to LMI borrowers.

Refinancings

The distribution of refinancings among borrowers of different levels in the CMSA was also acceptable given the performance context in which the bank operates. For the examination period, 4 percent of loans were to LMI borrowers. In 1998, the aggregate and BPPR originated 2 percent of loans to LMI borrowers.

Small Businesses Loans

Overall, the bank's record of lending to businesses of different sizes was excellent and consistent among the various PMSAs constituting the CMSA assessment area. Eighty-one percent of the bank's small business loans were for amounts of \$100 thousand or less. The average size of such loans was \$32,490, an amount that would typically meet the credit needs of smaller businesses. Of all small business loans in the CMSA assessment areas, 72 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less.

BPPR's overall 1998 performance was strong when compared with all other small business lenders in the CMSA assessment area. BPPR reported 80 percent of small business loan originations for amounts of \$100 thousand or less, while the aggregate of all other lenders was 29 percent for such loan originations. Regarding loans to businesses with GAR of \$1 million or less, BPPR reported 77 percent of small business loan originations to such businesses, while the aggregate of all other lenders was 84 percent of such loans.

SERVICE TEST

BPPR provided an excellent level of retail services in the CMSA assessment area. The branch delivery system was readily accessible to essentially all portions of the assessment area. As of December 31, 1999, the bank operated 132 branches in the CMSA. Branch locations were well dispersed throughout the assessment area and adequately reflect assessment area demographics. For details, see Exhibit 15.

The branch distribution system was effectively enhanced by alternative delivery systems including telephone and computer banking. In addition, as of December 31, 1999, the bank operated 330 ATMs throughout the CMSA assessment area (173 in BPPR branches and 157 off-site) and both Popular Mortgage and Popular Finance, affiliates of BPPR, operated loan origination offices throughout the CMSA. Popular Mortgage, which makes a full range of home purchase and refinance mortgage loans available, had 9 offices, while Popular Finance, which provides personal and second mortgage loans, had 31 offices throughout the CMSA.

Since the previous examination, the bank opened four new branches and consolidated five within the CMSA. One new branch and one consolidated branch were in LMI geographies. No branches were closed in the CMSA.

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.
- Distribution of loans among customers of different income levels and businesses of different sizes was good.
- BPPR's delivery systems were readily accessible to all portions of the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 6360

As of December 31, 1999, BPPR maintained 15 of its branches, or 8 percent, in the Ponce MSA. The branches contain approximately \$479 million in deposits or 7 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 \$302 million in deposits or 63 percent of the deposits in MSA 6360. In addition, Popular Mortgage opened an office in the MSA during the examination period, and Popular Finance operated seven loan offices in the MSA.

During the examination period, BPPR and its affiliates originated or purchased 1,657 home improvement loans, 567 home purchase loans, 557 refinancings, and 2,446 small business loans in this MSA, representing approximately 6 percent of all HMDA-related loans and 8 percent of all small business loan activity in Puerto Rico during the examination period. Of the HMDA-related and small business loans originated in MSA 6360 (Ponce, PR), 51 percent and 59 percent, respectively, were originated in the municipality of Ponce.

PERFORMANCE CONTEXT

The bank's performance was evaluated in terms of the competitive, demographic and economic context in which it operates. The competition for financial services is high in the MSA. BPPR is the market leader in terms of deposits with a 31 percent market share, based on data reported to the FDIC as of June 30, 1999. Primary BPPR competitors include Banco Santander Puerto Rico and Banco Bilbao Vizcaya Puerto Rico. Mortgage loan competitors, which dominate the market, include Doral Financial Corporation and R&G Mortgage Corporation.

Demographic and Income 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 the Ponce MSA is 342,649 or about

10 percent of the total population of Puerto Rico. Approximately 78 percent of the MSA's LMI census tracts are located in the municipality of Ponce. The municipalities of Guayanilla, Yauco and Peñuelas have no LMI tracts. As in the rest of Puerto Rico, the level of owner-occupancy is high with 73 percent of the housing units in the MSA being owner-occupied. 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 HUD estimated 1998 median family income was \$11,900 and increased to \$12,300 in 1999.

Housing Characteristics

Housing costs in the Ponce MSA are high. During the examination period, the average median price of a home was approximately \$81 thousand. The highest costs were found in the municipality of Yauco, where the median price was approximately \$118 thousand. The lowest median price in the MSA was approximately \$55 thousand in the municipality of Juana Diaz, where a large Act 124 affordable housing development was constructed during the examination period.

As discussed in the performance context, 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

Most job opportunities in the MSA are found in the municipality of Ponce, which is considered the business and commercial center of the southern portion of the island. The economies of the other municipalities are generally agricultural. In 1998, the annual unemployment rate in the Ponce MSA was 17.8 percent. As of 1999, the unemployment rate was 17.3 percent, one of the highest in Puerto Rico.

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

LENDING TEST

Geographic Distribution of Lending

Overall, the geographic distribution of loans in the Ponce MSA was good. For data used to reach this conclusion, see Exhibits 5 through 8.

Home Improvement Loans

The overall geographic distribution of home improvement loans in MSA 6360 (Ponce, PR) was adequate, based on deficiencies noted in the municipality of Ponce, where there is the greatest opportunity for LMI lending, and BPPR's performance relative to the aggregate and peer lenders.

Performance in the overall MSA was marginally good with 11 percent of loans in LMI geographies compared with 16 percent of owner-occupied housing units. This was slightly less than performance at the previous examination when 12 percent of loans were in LMI geographies. The overall performance, however, was negatively impacted by weakness noted in the municipality of Ponce. At this examination, 13 percent of home improvement loans in the municipality of Ponce were in LMI geographies, which does not compare favorably with the fact that 21 percent of owner-occupied housing units in the municipality are located in LMI geographies.

Apparent weakness was confirmed by comparing the bank's performance with the aggregate. For the MSA overall, BPPR underperformed the aggregate of all other lenders in 1998 when BPPR had 10 percent of home improvement loans in LMI geographies and the aggregate had 20 percent. The bank also underperformed the aggregate in the municipality of Ponce where BPPR had 12 percent of home improvement loans in LMI geographies and the aggregate 26 percent.

BPPR performance in the municipality of Ponce was also inconsistent with three other competitive bank lenders in the municipality. All three lenders exhibited what would be considered excellent or strong performance.

Home Purchase Loans

Home purchase loan performance was excellent in the overall MSA with 29 percent of loans in LMI geographies compared with 16 percent of owner-occupied housing units. Such performance resulted from construction of Act 124 homes in a moderate-income geography of the municipality of Juana Diaz (many of which were financed by BPPR), providing affordable housing opportunities for all residents of the MSA. In addition, BPPR strongly outperformed the aggregate of all other lenders in 1998 when BPPR had 31 percent of home purchase originations in LMI geographies and the aggregate had 6 percent.

Weakness was noted in the municipality of Ponce, but it was not considered significant enough to negatively impact the MSA conclusion. At this examination, 7 percent of home purchase loans in the municipality of Ponce were in LMI geographies where 21 percent of owner-occupied housing units are located. This is an improvement since the previous examination when 5 percent of loans were in LMI geographies. BPPR's enhanced performance in the municipality resulted, in part, from a special loan program with the Ponce Neighborhood Housing Services ("NHS") and the establishment of a Popular Mortgage office in the municipality. BPPR performance in the municipality of Ponce was consistent with the aggregate of all other lenders in 1998 when BPPR had 7 percent of home purchase loans in LMI geographies and the aggregate of all other lenders had 8 percent, indicating a weak demand in the overall market.

Refinancings

The distribution of refinancings among LMI geographies was adequate given performance context issues. For the examination period, 8 percent of loans were in LMI geographies. BPPR underperformed the aggregate of all other lenders in 1998 when the bank had 5 percent of loans in LMI geographies and the aggregate 11 percent, also indicating a weak demand in the overall market.

Performance was weakest in the municipality of Ponce where 8 percent of loans were in LMI geographies, which contain 21 percent of owner-occupied housing units. This level of lending in LMI geographies is an improvement since the previous examination when 5 percent of refinancings were in LMI geographies. Performance in the municipality of Ponce was less than that of the aggregate of all other lenders in 1998 with BPPR having 5 percent of loans in LMI geographies and the aggregate 13 percent. When considering only bank lenders, however, BPPR performance was comparable.

Small Business Loans

The overall geographic distribution of small business loans in MSA 6360 (Ponce, PR) was excellent. During the examination period, the bank originated 2,446 or 8 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, 196 or 8 percent were in moderate-income census tracts, an increase from the previous examination when 7 percent of small business loans were in such tracts. According to 1998 small business data for all lenders, BPPR originated 63 percent of all small business loans and 56 percent of all small business loans in the LMI census tracts of this MSA.

Borrower Characteristics

For the MSA overall, the distribution of loans among borrowers of different income levels and businesses of different sizes was good. For details, see Exhibits 9 through 12.

Home Improvement Loans

Performance was based primarily on lending to moderate-income borrowers and was considered adequate based on the performance context issues. Approximately 11 percent of home improvement loans were to LMI borrowers in the MSA during the examination period. Of that amount, 8 percent were to moderate-income borrowers and 3 percent to low-income borrowers. LMI families constitute approximately 41 percent of families in the MSA, while moderate-income families constitute 15 percent.

BPPR performance in MSA 6360 (Ponce, PR) was consistent with the aggregate for home improvement loans to moderate-income borrowers in 1998 with BPPR having made 7 percent of its loans to such borrowers and the aggregate having 8 percent.

Home Purchase Loans

The distribution of home purchase loans among borrowers of different income levels was acceptable based on the performance context issues. For the examination period, less than 1 percent of loans were to LMI borrowers. The 1998 activity of all HMDA reporters in the MSA shows only six home purchase loans to LMI borrowers, of which one was a BPPR loan.

Refinancings

The distribution of refinancings among borrowers of different income levels was acceptable based on the performance context issues. For the examination period, 2 percent of loans were to LMI borrowers. The 1998 activity of all HMDA reporters in the MSA shows only nine refinance loans to LMI borrowers, of which four were BPPR loans.

Lending to Small Businesses

The record of lending to businesses of different sizes was good in the MSA. Eighty-four percent of the bank's small business loans were for \$100 thousand or less. Of the small business loans in MSA 6360 (Ponce, PR), 69 percent were to businesses with GAR of \$1 million or less. Performance was somewhat better at the previous examination when 91 percent of loans were for \$100 thousand or less and 72 percent of the loans were to businesses with GAR or \$1 million or less.

When compared with the aggregate of all other small business lenders in 1998, BPPR performance was mixed. BPPR exceeded the aggregate for loans of \$100 thousand or less with the bank reporting 87 percent and the aggregate of all other lenders 72 percent. However, performance somewhat lagged the aggregate for loans to businesses with GAR of \$1 million or less with the bank having 84 percent and the aggregate of all other lenders 88 percent.

SERVICE TEST

BPPR provided an excellent level of retail services in the Ponce assessment area. The branch delivery system was accessible to essentially all portions of the assessment area. As of December 31, 1999, BPPR operated 15 branches in the MSA, 4 or 27 percent of which were in LMI geographies. This compares very favorably with the demographics of the MSA where 23 percent of the geographies are LMI. For details, see Exhibit 15.

The branch distribution system was effectively enhanced by alternative delivery systems including telephone and computer banking. In addition, as of December 31, 1999, the bank operated 31 ATMs throughout the MSA assessment area (of which 14 were off-site) and both

Popular Mortgage and Popular Finance, affiliates of BPPR, operated loan origination offices in the MSA.

No branches were opened, closed or consolidated in MSA 6360 (Ponce, PR) during the examination period.

MSA 4840 (MAYAGUEZ, PR)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Performance in the MSA was generally commensurate with the bank's overall performance. Information about 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 branches in MSA 4840 can be found in the exhibits. Also, exhibits for community development lending and qualified investments detail activity in the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 4840

As of December 31, 1999, BPPR maintained 14, or 7 percent, of its branches in the Mayaguez MSA. The branches contain approximately \$363 million in deposits, or 5 percent of the bank's deposits in Puerto Rico. In addition, bank affiliates, Popular Finance and Popular Mortgage, operated loan offices in the MSA. Popular Finance had four offices and Popular Mortgage had one office.

During the examination period, BPPR and its affiliates originated or purchased 1,265 home improvement loans, 471 home purchase loans, 511 refinancings, and 1,656 small business loans. This activity represents 5 percent of BPPR HMDA-related and small business loan activity in Puerto Rico during the examination period.

DESCRIPTION OF THE MSA

MSA 4840 (Mayaguez, PR) consists of six municipalities, the largest of which is Mayaguez. Total population of the MSA is approximately 237 thousand, which is about 7 percent of the total population of Puerto Rico. LMI census tracts are concentrated in the municipality of Mayaguez, while the municipalities of Añasco and Hormigueros have no LMI tracts. Overall, 71 percent of the housing units in the MSA are owner-occupied. 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. During the examination period, the average median cost of a home in the MSA was approximately \$70,800.

For 1998, the annual unemployment rate for the MSA was 15.5 percent. For 1999, the unemployment rate was 15.1 percent, one of the highest rates on the island. The 1998 HUD estimated median family income for the MSA was \$12,500, increasing to \$13,000 in 1999.

MSA 0060 (AGUADILLA, PR)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Performance in the MSA was generally commensurate with the bank's overall performance. The low level of activity in the geographic distribution of HMDA-related loans was attributed to the low level of opportunity (defined by the number of owner-occupied housing units in LMI geographies) and not considered significant to the bank's overall performance. Information about 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 branches in MSA 0060 can be found in the exhibits. Also, exhibits for community development lending and qualified investments detail activity in the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN MSA 0060

As of December 31, 1999, BPPR maintained six, or 3 percent, of its branches in the MSA. The branches contain approximately \$201 million in deposits or 3 percent of the bank's deposits in Puerto Rico. Four branches representing \$131 million in deposits were located in the municipality of Aguadilla. In addition, Popular Finance operated four loan offices in the MSA.

During the examination period, BPPR and its affiliates originated or purchased 1,062 home improvement loans, 210 home purchase loans, 368 refinancings, and 1,300 small business loans. This activity represents 4 percent of BPPR HMDA-related and small business loan activity in Puerto Rico during the examination period.

PERFORMANCE CONTEXT

MSA 0060 (Aguadilla, PR), located on the northwestern 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. Based on the 1990 Census, only three of the 26 census tracts used in the analysis are moderate-income census tracts, and all are in Aguadilla. There are no low-income census tracts; however, the HUD estimated median family income of \$12,200 for the MSA in 1999 was the lowest of the MSAs in Puerto Rico.

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 approximately \$75 thousand.

The unemployment rate in MSA 0060 (Aguadilla, PR) is the highest of all MSAs in Puerto Rico. For 1998, the unemployment rate was 18.2 percent. The rate for 1999 was 14.7 percent.

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 generally consistent with the bank's overall performance in the other Puerto Rico assessment areas. Information about 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 branches in the assessment area can be found in the exhibits portion of this report. Also, exhibits for community development lending and qualified investments detail activity in the MSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN NON-MSA 1

As of December 31, 1999, the bank maintained 25, or 13 percent, of its retail branches in the contiguous non-MSA municipalities. The branches contain \$615 million in deposits, or 8 percent of the bank's total deposits in Puerto Rico. During the examination period, BPPR and its affiliates originated or purchased 2,636 home improvement loans, 987 home purchase loans, 946 refinancings, and 3,824 small business loans. Such activity represents approximately 10 percent of BPPR HMDA-related loan activity and 13 percent of the bank's small business loan activity in Puerto Rico during the examination period.

PERFORMANCE CONTEXT

This assessment area consists of 20 contiguous non-MSA municipalities including Adjuntas, Aibonito, Arroyo, Barranquitas, Ciales, Coamo, Guayama, Isabela, Jayuya, Lares, Las Marias, Maunabo, Maricao, Orocovis, Patillas, Quebradillas, Salinas, San Sebastian, 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. The 1998 HUD estimated median family income for all non-MSA municipalities in Puerto Rico was \$10,600 and in 1999, \$11,600.

Based on the 1990 Census, the assessment area has 110 block numbering areas ("BNAs"). Of the total number of BNAs, none are low-income and only eight are moderate-income. Fifteen of the 20 municipalities have no moderate-income BNAs. Within the combined municipalities, the 101,668 owner-occupied housing units represent approximately 13 percent of all owner-occupied housing units in Puerto Rico. Approximately 3 percent or 4,844 owner-occupied housing units are located in LMI BNAs. In light of this demographic information, lending opportunities in LMI geographies in the assessment area are very limited.

NON-MSA 2
(MUNICIPALITIES OF GUANICA AND LAJAS)

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 2

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

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of December 31, 1999, BPPR maintained one branch in the municipality of Lajas to serve both municipalities in this assessment area. The branch contains \$8 million in deposits. During the examination period, BPPR and its affiliates originated or purchased 183 home improvement loans, 231 home purchase loans, 78 refinancings, and 182 small business loans. Deposit and lending activity represent approximately 1 percent of the bank's total such activity in Puerto Rico.

PERFORMANCE CONTEXT

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 2 are moderate-income. Both moderate-income BNAs are located in Guanica. There are approximately 10,000 owner-occupied housing units of which 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 and branch presence is not sufficient to reach meaningful conclusions relative to the bank's performance in the assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of December 31, 1999, the bank maintained one retail branch in the municipality containing \$13 million in deposits. During the examination period, BPPR and its affiliates originated or purchased 28 home improvement loans, 39 home purchase loans, 20 refinance loans, and 70 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity.

PERFORMANCE CONTEXT

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 and branch presence is not sufficient to reach meaningful conclusions relative to the bank's performance in this assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of December 31, 1999, the bank maintained one retail branch in the municipality containing \$8 million in deposits. During the examination period, BPPR and its affiliates originated or purchased 16 home improvement loans, 20 home purchase loans, 2 refinancings, and 14 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity.

PERFORMANCE CONTEXT

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. The entire island, which has 402 owner-occupied housing units, is considered upper-income.

NON-MSA 5 **(MUNICIPALITY OF VIEQUES)**

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NON-MSA 5

Lending activity and branch presence is not sufficient to reach meaningful conclusions relative to the bank's performance in this assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS

As of December 31, 1999, the bank maintained one retail branch in the municipality containing \$24 million in deposits. During the examination period, BPPR and its affiliates originated or purchased 96 home improvement loans, 3 home purchase loans, and 13 refinance loans, and

60 small business loans. Deposits and lending activity represent less than 1 percent of the bank's total such activity.

PERFORMANCE CONTEXT

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 and contains 638 owner-occupied housing units.

EXHIBIT 4

Total Loan Originations

Puerto Rico Assessment Areas

January 1, 1998 – December 31, 1999

Loan Type	#	%	\$(‘000s)	%
HMDA Home Purchase	10,038	22	\$1,044,858	46
HMDA Refinance	11,555	25	951,708	42
HMDA Home Improvement	24,622	53	255,533	11
Total HMDA-related	46,215	60	\$2,252,099	51
Total Small Business	29,901	39	2,148,708	48
Total Small Farm	556	1	39,869	1
TOTAL LOANS	76,672	100%	\$4,440,676	100%

EXHIBIT 5

DISTRIBUTION OF HOME IMPROVEMENT LOANS ACROSS CENSUS TRACT INCOME LEVELS IN PUERTO RICO

EXHIBIT 5 (CONTINUED)

EXHIBIT 6

DISTRIBUTION OF HOME PURCHASE LOANS ACROSS CENSUS TRACT INCOME LEVELS

EXHIBIT 6 (CONTINUED)

EXHIBIT 7

DISTRIBUTION OF REFINANCINGS ACROSS CENSUS TRACT INCOME LEVELS

EXHIBIT 7
(CONTINUED)

EXHIBIT 8

*DISTRIBUTION OF SMALL BUSINESS LOANS ACROSS CENSUS
TRACT INCOME LEVELS*

**EXHIBIT 8
(CONTINUED)**

EXHIBIT 9

**DISTRIBUTION OF HOME IMPROVEMENT LOANS BY BORROWER
INCOME LEVELS**

EXHIBIT 9 (CONTINUED)

EXHIBIT 10

**DISTRIBUTION OF HOME PURCHASE LOANS BY BORROWER
INCOME LEVELS**

EXHIBIT 10 CONTINUED

EXHIBIT 11

DISTRIBUTION OF REFINANCE LOANS Across BORROWER INCOME LEVEL

EXHIBIT 11 CONTINUED

EXHIBIT 12

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

EXHIBIT 12 (Continued)

EXHIBIT 13

Summary of Community Development Lending

April 1, 1998 – December 31, 1999

Assessment Area	Commitment ('000s)	%	Outstanding ('000s)	%	New Money ('000s)	%	Housing Units
PMSA 7440 (San Juan, PR)	\$65,638	59%	\$47,751	84%	\$61,566	58%	722
PMSA 1310 (Caguas, PR)	\$3,870	3%	\$1,517	3%	\$3,870	4%	0
PMSA 0470 (Arecibo, PR)	\$84	0%	\$34	0%	\$84	0%	0
CSMA 7442 Subtotal	\$69,592	62%	\$49,302	87%	\$65,520	62%	722
MSA 0060 (Aguadilla, PR)	\$58	0%	\$58	0%	\$0	0%	6
MSA 4840 (Mayaguez, PR)	\$1,224	1%	\$489	1%	\$1,187	1%	30
MSA 6360 (Ponce, PR)	\$5,517	5%	\$4,412	7%	\$4,821	4%	183
Non-MSA	\$13,748	13%	\$632	1%	\$13,373	13%	364
Island-Wide	\$0	0%	\$0	0%	\$0	0%	0
Puerto Rico Assessment Area	\$90,139	81%	\$54,893	96%	\$84,901	80%	1,305
Virgin Islands Assessment Area	\$21,553	19%	\$2,103	4%	\$20,800	20%	0
TOTALS	\$111,692	100%	\$56,996	100%	\$105,701	100%	1,305
Direct Activity	\$85,550	77%	\$30,854	54%	\$80,701	71%	1,305
Indirect Activity	\$26,142	23%	\$26,142	46%	\$25,000	29%	0
TOTAL ACTIVITY	\$111,692	100%	\$56,996	100%	\$105,701	100%	1,305
Affordable Housing	\$43,885	39%	\$19,504	34%	\$40,746	39%	1,305
Community Service	\$17,619	16%	\$8,909	16%	\$16,117	15%	0
Economic Development	\$50,188	45%	\$28,583	49%	\$48,838	46%	0

EXHIBIT 14

Summary of Qualified Investments

April 1, 1998 – December 31, 1999

Assessment Area	Commitment ('000s)	%	Outstanding ('000s)	%	New Money ('000s)	%	Housing Units
PMSA 7440 (San Juan, PR)	\$12,254	10%	\$12,131	10%	\$1,635	2%	0
PMSA 1310 (Caguas, PR)	\$1,646	1%	\$1,646	1%	\$40	0%	0
PMSA 0470 (Arecibo, PR)	\$291	0%	\$291	0%	\$18	0%	0
CSMA 7442 Subtotal	\$14,191	11%	\$14,068	11%	\$1,693	2%	0
MSA 0060 (Aguadilla, PR)	\$49	1%	\$49	1%	\$2	0%	0
MSA 4840 (Mayaguez, PR)	\$80	0%	\$80	0%	\$28	0%	0
MSA 6360 (Ponce, PR)	\$720	1%	\$720	1%	\$176	0%	0
Non-MSA	\$175	0%	\$175	0%	\$68	0%	0
Island-wide	\$112,288	88%	\$112,288	88%	\$68,833	98%	0
Puerto Rico Assessment Area	\$127,503	100%	\$127,380	100%	\$70,800	100%	0
Virgin Islands Assessment Area	\$14	0%	\$14	0%	\$14	0%	0
TOTAL ACTIVITY	\$127,517	100%	\$127,394	100%	\$70,814	100%	0
Affordable Housing	\$106,875	84%	\$106,875	45%	\$68,567	97%	0
Community Service	\$1,891	1%	\$1,891	1%	\$1,891	3%	0
Economic Development	\$18,751	15%	\$18,628	15%	\$356	0%	0

EXHIBIT 15

Branch Locations in Puerto Rico

As of December 31, 1999

County/MSA	# of Branches	# in LMI Area	% in LMI Area <i>* indicates a county with no LMI tracts</i>
San Juan	41	10	24%
Yabucoa	1	0	0%
Manati	1	1	100%
Corozal	1	1	100%
Morovis	1	1	100%
Vega Baja	3	1	33%
Toa Baja	3	1	33%
Naranjito	2	1	50%
Canovanas	1	0	0%
Comerio	1	1	100%
Fajardo	3	2	67%
Toa Alta	1	0	0%
Barceloneta	2	2	100%
Naguabo	1	1	100%
Guaynabo	10	1	10%
Humacao	6	0	0%
Catano	0	0	0%
Loiza	1	0	0%
Dorado	2	1	50%
Bayamon	9	1	11%
Vega Alta	1	0	0%
Florida	1	1	100%
Aguas Buenas	1	1	100%
Juncos	2	0	0%
Rio Grande	2	0	0%
Carolina	11	0	0%
Luquillo	1	0	0%
Ceiba	1	0	*
Las Piedras	1	0	*
Trujillo	2	0	*
Totals for PMSA 7440 (San Juan-Bayamon, PR)	113	27	24%
San Lorenzo	1	0	0%

(CONTINUED)

Caguas	7	1	14%
Cayey	2	1	50%

EXHIBIT 15

Branch Locations in Puerto Rico

As of December 31, 1999

County/MSA	# of Branches	# in LMI Area	% in LMI Area <i>* indicates a county with no LMI tracts</i>
Cidra	1	0	0%
Gurabo	1	0	0%
PMSA 1310 (Caguas) Totals	12	2	17%
Arecibo	4	1	25%
Camuy	1	0	*
Hatillo	2	0	*
PMSA 0470 (Arecibo) Totals	7	1	14%
TOTALS FOR CMSA 7442	132	30	23%
Ponce	9	4	44%
Juana Diaz	1	0	0%
Villalba	1	0	0%
Guayanilla	1	0	*
Yauco	2	0	*
Peñuelas	1	0	*
MSA 6360 (Ponce) Totals	15	4	27%
Mayaguez	6	1	17%
Cabo Rojo	2	0	0%
Sabana Grande	1	1	100%
San German	1	0	0%
Añasco	1	0	0%
Hormigueros	3	0	0%
MSA 4840 (Mayaguez) Totals	14	2	14%
Aguadilla	4	1	25%
Aguada	1	0	*
Moca	1	0	*
MSA 0060 (Aguadilla) Totals	6	1	17%
TOTALS FOR MSAs	35	7	20%
Adjuntas	1	0	0%
Aibonito	1	0	*
Arroyo	1	0	*
Barranquitas	1	0	*

(CONTINUED)

Ciales	1	0	*
Coamo	1	0	*
Guayama	2	0	*

EXHIBIT 15

Branch Locations in Puerto Rico

As of December 31, 1999

County/MSA	# of Branches	# in LMI Area	% in LMI Area <i>* indicates a county with no LMI tracts</i>
Isabela	2	0	*
Jayuya	1	0	*
Lares	1	0	0%
Las Marias	1	0	*
Maricao	1	0	0%
Maunabo	1	0	*
Orocovis	1	0	*
Patillas	1	0	*
Quebradillas	2	0	*
Salinas	2	0	*
San Sebastian	2	0	*
Santa Isabel	1	0	*
Utua	1	0	0%
Totals for Contiguous Non-MSA Group 1	25	0	0%
Guanica	0	0	0%
Lajas	1	0	*
Non-MSA Group 2 Totals	1	0	0%
Rincon	1	0	*
Non-MSA Group 3 Totals	1	0	0%
Culebra	1	0	*
Non-MSA Group 4 Totals	1	0	0%
Vieques	1	1	100%
Non-MSA Group 5 Totals	1	1	100%
Totals for Non-Contiguous Non-MSAs	4	1	25%
TOTALS FOR NON-MSAs	29	1	3%
TOTALS FOR PUERTO RICO	196	38	19%

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.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN THE USVI

As of December 31, 1999, BPPR operated seven retail branches in the USVI containing \$460 million in deposits and the largest branch network in the USVI. The branches represent 3 percent of the bank's total branches and 6 percent of total branch deposits in BPPR's combined Puerto Rico and USVI assessment areas. Approximately \$580 million or 3 percent of the bank's assets are in the USVI.

DESCRIPTION OF USVI ASSESSMENT AREAS

BPPR has two assessment areas in the USVI, the island of St. Thomas and the island of St. Croix. During the examination period, BPPR was one of the three primary financial institutions operating in the USVI, in addition to Chase Manhattan Bank and Bank of Nova Scotia. Based on deposits reported to the FDIC as of June 30, 1999, BPPR had 40 percent of deposits in the USVI.

PERFORMANCE CONTEXT

In addition to the competitive environment, demographic and economic information helps to explain the performance context in which the bank operates. The following 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 the islands of 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. Based on the 1990 Census, the median family income for the entire USVI is \$24,036. Median income is somewhat higher in St. Thomas (\$26,661) but lower in St. Croix (\$20,835). The 1998 HUD estimated median

family income was \$39,900 for St. Thomas and \$30,200 for St. Croix. In 1999, the levels reached \$42,300 and \$32,300, respectively.

Of the 16 subdistricts used in the analysis, 3, or 19 percent, are LMI and are 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 BNAs (block numbering areas). The Virgin Islands government created census subdistricts in 1979, and the Census Bureau first used them in the 1980 Census.

Housing Characteristics

Based on the 1990 Census, the USVI assessment areas contain 37,370 housing units, 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 and insurance prices and low income levels have resulted in the low level of owner-occupancy in the USVI. According to the USVI Bureau of Economic Research, the average housing price in St. Thomas in 1998, the most recent year for which information is available, is \$194 thousand, and in St. Croix, \$135 thousand. Comparing these prices with median income levels, it is apparent that owner-occupied housing is generally beyond the reach of LMI families.

In order to provide homeownership opportunities for LMI families, 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. During the examination period, the authority had a new initiative underway converting affordable rental housing units to owner-occupancy. The VIHFA has established income limits, based on family size, for qualified LMI buyers.

Community contacts noted that hazard insurance costs represent a barrier to homeownership for LMI families. The monthly cost of such insurance can be more than the required monthly mortgage loan principal and interest payment. In addition, insurance costs generally escalate each time large losses occur on the islands.

As a result of the issues discussed above, new and innovative home purchase loans in the USVI are needed. Home improvement loans are also needed 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

The USVI economy experienced difficult times during the examination period. At the end of 1998, the territory reportedly had a debt of approximately \$1 billion. As a result, the U.S. government assisted the USVI in forming an economic recovery plan early in 1999 designed

to bring about economic stability. Damage repairs from Hurricane Georges in September 1998 and Hurricane Lenny in November 1999 put additional strain on the USVI economy, resulting in a request for increased aid from FEMA (Federal Emergency Management Agency). It is estimated that 40 to 50 percent of the territory's overall economy is based on U.S. aid.

The local economy is driven by the service sector, primarily tourism, which accounts for 63 percent of the territory's GDP (gross domestic product). Tourism alone employs about 30 percent of the workforce. Agriculture accounts for about 20 percent of the GDP in the USVI. The poor quality of land generally precludes large-scale cultivation, but cattle ranching provides some agricultural opportunities. The remaining 17 percent of the GDP is generated by the industrial sector, principally rum distilling, watch/clock assembly and petroleum refining. Most industrial activity is found on the island of St. Croix where the Hess Oil Refinery is the USVI's largest employer. For 1998, the most recent year for which information is available, the unemployment rate in the territory was 6.4 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN THE USVI

LENDING TEST

The bank's performance under the lending test is rated "outstanding."

Lending Activity

Lending in the USVI reflected an excellent response to assessment area credit needs. During the examination period, 805 loans totaling approximately \$87 million were originated in the bank's USVI assessment area. The loans consisted of 450 housing-related loans and 355 small business loans (for details, see Exhibit 16). Activity was concentrated in the St. Thomas assessment area where 66 percent of all loans were originated. Lending activity in the overall USVI assessment area represents approximately 1 percent of the bank's total lending activity evaluated at this examination.

On an annualized basis, total lending volume increased approximately 22 percent since the previous examination. Home purchase lending declined while home improvement lending increased. Both changes appear to result from the two hurricanes that struck the islands during the examination period. Low interest rates during much of the examination resulted in the increase in refinance loans.

Geographic Distribution of Lending

Overall, the analysis demonstrated excellent activity among the various assessment areas in the USVI. For details, see Exhibits 17 through 20.

HMDA-related Loans

Bank information indicates that housing-related loans were well disbursed among the two islands, with 61 percent of all housing-related loans in St. Thomas and the remainder on St. Croix. Seventy-one percent of BPPR branches and 84 percent of deposits in the USVI assessment area are in St. Thomas.

Small Business Loans

Overall, information indicates BPPR's performance with regard to the distribution of small business lending was good. Seventy-four percent of the bank's small business loans were made in St. Thomas, the financial and business center of the USVI economy. The other 26 percent of loans were on St. Croix.

Borrower Characteristics

The distribution of loans among borrowers of different income levels and businesses of different sizes was good given the income levels and housing costs in the USVI. For details, see Exhibits 17 through 20.

Home Improvement Loans

The distribution of home improvement loans among borrowers of different income levels reflected excellent distribution. For the examination period, 32 percent of home improvement loan originations were to LMI borrowers. This is a substantial increase from the previous examination and appears to result from changes in government programs and the need for hurricane repairs.

Home Purchase Loans

The distribution of home purchase loans among borrowers of different income levels also reflected excellent distribution. Eighteen percent of BPPR home purchase loan originations were to LMI borrowers. This performance also exceeds that reported at the previous examination and appears to result from the housing authority's new program converting rental units to owner-occupancy.

Refinancings

During the examination period, 6 percent of refinancings were made to LMI borrowers. This level of lending is consistent with the previous examination and the significant gap between housing costs and income levels, which generally precludes LMI borrowers from the housing market, as discussed in the USVI Performance Context section.

Lending to Small Businesses

The bank's record of lending to businesses of different sizes in the USVI assessment areas was excellent. Sixty-eight percent of the bank's small business loans were for amounts of \$100 thousand or less. Of all small business loans in the assessment areas, 66 percent of loans originated during the examination period were to businesses with GAR of \$1 million or less. This is an improvement since the previous examination when only 41 percent of small business loans were extended to such businesses.

Community Development Lending

BPPR had an excellent level of community development lending in its USVI assessment area. As of December 31, 1999, community development loans in the USVI totaled \$21.6 million and primarily addressed economic development needs. At the previous examination, BPPR community development lending in the USVI totaled \$9 million. For details, see Exhibit 13.

INVESTMENT TEST

BPPR's investment test performance was acceptable given the limited opportunities in the assessment area. During the examination period, the USVI issued no obligations that would be considered CRA-qualified. Very little large private sector community development activity exists, and most funding for affordable housing and economic development is accomplished through a government agency. During the examination period, the bank's various charitable contributions considered qualified investments totaled \$14 thousand.

SERVICE TEST

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

Retail Delivery Systems

Accessibility of Delivery Systems

BPPR's delivery systems were readily accessible to essentially all portions of the bank's assessment areas. As of December 31, 1999, BPPR operated seven branches in its USVI assessment areas of which five were located in St. Thomas and two in St. Croix. The St. Thomas branches serve the communities of Charlotte Amalie (two), 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.

Alternative Delivery Systems

In addition to the branch network, BPPR employs several alternative delivery systems that effectively enhance the distribution of services throughout its assessment areas. Alternative delivery systems include telephone and computer banking, as well as ATMs. As of December 31, 1999, the bank operated 12 24-hour ATMs of which 7 were in bank branches and 5 were off-site in various shopping and tourist locations. This ATM network is an integral part of BPPR's ability to provide financial services to persons who do not maintain an account relationship with banks, as discussed in the Community Development Services section on page BB16.

Changes in Branch Locations

Since the previous examination, BPPR did not open or close any branches in its USVI assessment areas. The main office in St. Thomas was expanded and relocated about one-quarter mile away from the previous location because of hurricane damage to the original structure.

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 inconvenienced certain portions of its assessment areas. Extended evening hours were available at all branches on Fridays and government paydays, and walk-up windows provide extended hours in the morning. In addition, BPPR offers Saturday hours at two offices in St. Thomas and one in St. Croix.

BPPR offers a full range of deposit and credit services 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.

Community Development Services

BPPR provides an adequate level of community development services in its USVI assessment areas. The bank offers the same variety of community development products and services in the USVI assessment area that it does in Puerto Rico. Branch personnel provided technical assistance to local governmental agencies and the business development center at the local university.

NON-METROPOLITAN AREAS

ISLAND OF ST. THOMAS

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

- Distribution of loans was good throughout the assessment area.
- Distribution of loans among customers of different income levels and businesses of different sizes was excellent.
- BPPR's delivery systems were readily accessible to all portions of the assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ST. THOMAS

BPPR's operations in the USVI are concentrated in St. Thomas. As of December 31, 1999, the bank maintained five of its seven USVI retail branches in this assessment area. The branches contain approximately \$365 million in deposits or 79 percent of the bank's total deposits in the USVI.

During the examination period, the bank originated 106 home improvement loans, 64 home purchase loans, 103 refinancings and 261 small business loans in St. Thomas.

DESCRIPTION OF THE ST. THOMAS ASSESSMENT AREA

According to the 1990 Census, St. Thomas has a population of approximately 48 thousand, about half of the total population in the bank's USVI assessment areas. The 1998 HUD estimated median family in St. Thomas was \$39,900, increasing to \$42,300 in 1999. St. Thomas has no LMI geographies. 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. As previously discussed, the cost of homes in St. Thomas compared with income levels makes homeownership difficult for most families.

Tourism dominates the economy of St. Thomas, which has about twice the number of hotel rooms as St. Croix. For 1998, the most recent year for which information is available, the unemployment rate in St. Thomas was 6.4 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Detailed information about the geographic distribution of loans, the distribution of loans among borrowers of different income levels and businesses of different sizes, and the accessibility of the bank's branches in the assessment area can be found in the exhibits.

LENDING TEST

Geographic Distribution of Lending

Information supplied by BPPR indicates that housing-related and small business loans were well distributed throughout the island of St. Thomas, which has no LMI subdistricts.

Borrower Characteristics

Overall, the distribution of loans to borrowers of different income levels and businesses of different sizes was excellent. The distribution of home improvement and home purchase loans among borrowers of different income levels was very good. This performance was the probable result of the need to repair hurricane damage and the implementation of new housing authority programs. During the examination period, the government initiated a program to sell land at affordable prices to qualified purchasers and began converting affordable rental housing to affordable owner-occupied housing.

The distribution of refinance loans was acceptable given the performance context issues related to the gap between incomes and housing costs. The distribution of loans to businesses of different sizes was good, with the majority of loans in amounts of \$100 thousand or less and made to businesses with GAR of \$1 million or less.

SERVICE TEST

BPPR's five branches in St. Thomas are readily accessible to all portions of the assessment area. No branches were opened or closed during the examination period, and business hours were tailored to the needs of the assessment area.

ISLAND OF ST. CROIX

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

- Distribution of loans throughout the assessment area was good.
- Distribution of loans among customers of different income levels and businesses of different sizes was good.
- BPPR's delivery systems were readily accessible to all portions of the assessment area.

DESCRIPTION OF INSTITUTION'S OPERATIONS IN ST. CROIX

As of December 31, 1999 BPPR maintained two retail branches in this assessment area. The branches contained approximately \$95 million in deposits or 21 percent of the bank's USVI deposits.

During the examination period, the bank originated 66 home improvement loans, 21 home purchase loans, 90 refinancings, and 94 small business loans in St. Croix. This activity represents approximately 39 percent of housing-related and 26 percent of small business loans originated in the USVI assessment areas.

DESCRIPTION OF THE ST. CROIX ASSESSMENT AREA

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. The 1998 HUD adjusted median family income for St. Croix was \$27,700 and increased to \$32,300 in 1999. Of St. Croix's nine subdistricts used in the assessment area analysis, three, or one-third, are LMI.

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 income levels, as previously discussed. As in St. Thomas, the major industry in St. Croix is tourism. St. Croix also has a sizable number of manufacturing jobs with Hess Oil operating one of the world's largest petroleum refineries on the island. In 1998, the most recent year for which information is available, the unemployment rate in St. Croix was 7.6 percent.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ST. CROIX

Detailed information about the geographic distribution of loans, the distribution of loans among borrowers of different income levels and businesses of different sizes, and the accessibility of the bank's branches in the assessment area can be found in the exhibits.

LENDING TEST

Geographic Distribution of Lending

Information supplied by BPPR indicates that the distribution of home improvement, home purchase, refinance loans and small business loans was good in St. Croix.

Borrower Characteristics

The distribution of housing-related loans among borrowers of different income levels was good, with the strongest performance recorded in the home improvement loan category. The distribution of loans to businesses of different sizes was excellent, with a significant majority of loans in amounts of \$100 thousand or less and made to businesses with GAR of \$1 million or less.

SERVICE TEST

BPPR's two branches in St. Croix are readily accessible to all portions of the assessment area. No branches were opened or closed during the examination period and business hours were tailored to the needs of the assessment area.

EXHIBIT 16

Total Loan Originations

U.S. Virgin Islands Assessment Areas

January 1, 1998 – December 31, 1999

Loan Type	#	%	\$('000s)	%
Home Purchase	85	19	8,690	19
Refinance	193	43	24,780	56
Home Improvement	172	38	11,110	25
Total Housing Loans	450	56	44,580	51
Total Small Business	355	44	42,757	49
TOTAL LOANS	805	100%	\$87,337	100%

EXHIBIT 17

**Distribution of Home Improvement Loans
 Across Assessment Areas and
 Borrower Income Levels**

January 1, 1998 – December 31, 1999

	Low-income		Moderate-income		LMI		TOTAL # OF LOANS
	# of Loans	% of Total	# of Loans	% of Total	# of Loans	% of Total	
St. Croix	5	8%	12	18%	17	26%	66
St. Thomas	19	18%	19	18%	38	36%	106
TOTALS	24	14%	31	18%	55	32%	172

EXHIBIT 18

**Distribution of Home Purchase Loans
 Across Assessment Areas and
 Borrower Income Levels**

January 1, 1998 – December 31, 1999

	Low-income		Moderate-income		LMI		TOTAL # OF LOANS
	# of Loans	% of Total	# of Loans	% of Total	# of Loans	% of Total	
St. Croix	0	--	1	5%	1	5%	21
St. Thomas	3	5%	11	17%	14	22%	64
TOTALS	3	4%	12	14%	15	18%	85

EXHIBIT 19

**Distribution of Refinancings
 Across Assessment Areas and
 Borrower Income Levels**

January 1, 1998 – December 31, 1999

	Low-income		Moderate-income		LMI		TOTAL # OF LOANS
	# of Loans	% of Total	# of Loans	% of Total	# of Loans	% of Total	
St. Croix	1	1%	8	9%	9	10%	90
St. Thomas	0	--	3	3%	3	3%	103
TOTALS	1	1%	11	6%	12	6%	193

EXHIBIT 20

**Distribution of Small Business Loans
 Across Assessment Areas by Loan Size
 And to Businesses with Gross Annual
 Revenues of \$1 Million or Less**

January 1, 1998 – December 31, 1999

	Distribution of Small Business & Small Farm Loans by Loan Size			Distribution of Small Business Loans to Bus. with GAR < = \$1 million			TOTAL # OF LOANS
	#	%	\$'000s	#	%	\$'000s	
St. Croix	69	73%	\$2,152	83	88%	\$4,737	94
St. Thomas	174	67%	\$7,736	152	58	\$5,603	261
TOTALS	243	68%	\$9,888	235	66%	\$10,340	355

CRA APPENDICES

CRA APPENDIX A

SCOPE OF EXAMINATION			
BANCO POPULAR DE PUERTO RICO			
TIME PERIOD REVIEWED		1/1/98 TO 12/31/99	
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Banco Popular de Puerto Rico, San Juan, PR			<ul style="list-style-type: none"> • Mortgage loans • Small business loans • Small farm loans • Community development loans
AFFILIATE(S)		AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
Popular Mortgage, Inc.		Bank subsidiary	<ul style="list-style-type: none"> • Mortgage loans
Popular Finance, Inc.		Bank subsidiary	<ul style="list-style-type: none"> • Mortgage loans • Home improvement loans

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
PUERTO RICO			
CMSA 7440 (San Juan-Bayamon, PR)	On-site		Loan and investment information was 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

AFFILIATE: Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

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.

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

CRA: Community Reinvestment Act.

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 included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income.

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.