

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Peapack-Gladstone Bank
RSSD No. 236706
158 U.S. HIGHWAY 206 NORTH
GLADSTONE, NEW JERSEY 07934**

**Federal Reserve Bank of New York
33 Liberty Street
NEW YORK, NEW YORK 10045-0001**

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

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GENERAL INFORMATION

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

*This document is an evaluation of the CRA performance of **Peapack-Gladstone Bank** prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution’s supervisory agency, as of **November 1, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution’s branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: Peapack-Gladstone Bank is rated **“SATISFACTORY.”**

The level of compliance of Peapack-Gladstone Bank (“Peapack”) 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 “low satisfactory” based on the following findings:

- The lending activities reflected adequate responsiveness to assessment area credit needs; however, overall lending during the examination period declined.
- The geographic distribution of loans was good.
- The overall distribution of loans among borrowers of different income levels and businesses of different sizes was good.
- The level of community development loans was adequate, totaling \$490 thousand.

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

- Peapack had an adequate level of qualified investments in its assessment area, totaling \$261.8 thousand.

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

- The bank’s delivery systems were readily accessible to all portions of Peapack’s assessment area, and services did not vary in a way that would inconvenience certain portions of the assessment area.
- The bank provided an adequate level of community development services throughout its assessment area.

LENDING, INVESTMENT AND SERVICE TESTS TABLE

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

| PERFORMANCE LEVELS | PEAPACK-GLADSTONE BANK | | |
|-------------------------------|-------------------------------|----------------------------|---------------------|
| | PERFORMANCE TESTS | | |
| | Lending Test* | Investment Test | Service Test |
| Outstanding | | | |
| High Satisfactory | | | X |
| Low Satisfactory | X | X | |
| Needs to Improve | | | |
| Substantial Noncompliance | | | |

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

DESCRIPTION OF INSTITUTION

Peapack, headquartered in Gladstone, New Jersey, is a full-service, commercial bank chartered in 1921. In December 1997, the bank formed a one-bank holding company known as Peapack-Gladstone Financial Corporation, which had consolidated assets of \$411 million in June 1999. As of June 30, 1999, the bank had total assets of \$409 million, deposits of \$371 million, and loans and leases of \$217 million. On July 7, 1999, the corporation created a wholly owned subsidiary known as Peapack Gladstone Mortgage Group, Inc., a real estate investment trust.

As of the examination date, November 1, 1999, Peapack operated ten full-service branches in Somerset, Hunterdon and Morris Counties in central New Jersey. An additional office in Gladstone in Somerset County houses a loan production office and administration functions. The bank's market area is highly competitive with numerous local, regional and multinational banks operating in Peapack's assessment area.

Peapack's previous CRA examination was conducted as of December 1, 1997, at which time the bank received an overall rating of satisfactory. There are no financial or legal factors that would keep Peapack from fulfilling its responsibilities under the CRA.

DESCRIPTION OF ASSESSMENT AREA

The bank's assessment area includes portions of two Primary Metropolitan Statistical Areas ("PMSAs") consisting of the following:

- PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ), including the suburban and rural northeastern portion of Somerset County and the rural northwestern section of Hunterdon County.
- PMSA 5640 (Newark, NJ), including the predominantly suburban portion of southwestern Morris County.

Peapack's assessment area has not changed since the previous examination. The area is in compliance with the requirements of Section 228.41 of Regulation BB and does not arbitrarily exclude any low- and moderate-income ("LMI") geographies.

The following map illustrates Peapack's assessment area:

INSERT

MAP OF ASSESSMENT AREA

PERFORMANCE CONTEXT

Demographic Characteristics

According to the 1990 Census, the total population in the bank's assessment area is 138,130, or about 2 percent of the population of New Jersey. There are no LMI census tracts in the assessment area. Based on 1999 estimates by the U.S. Department of Housing and Urban Development ("HUD"), median family incomes range from \$67,900 in PMSA 5640 (Newark, NJ) to \$76,700 in PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ). Estimated median family income for the state in 1999 is \$63,800.

The counties included in the bank's assessment area are the three most affluent in New Jersey with Somerset County ranking first. Approximately 7,161 or 19 percent of the families in the assessment area are considered to be in the LMI category compared with 37 percent at the state level. Less than 1 percent of the population lives below the poverty level of \$16 thousand a year for a family of four.

Housing Characteristics

In 1990, median housing costs in the assessment area ranged from \$184 thousand to \$278 thousand, well beyond the reach of most low-income families, as well as many moderate-income families. According to the 1990 New Jersey Consolidated Plan Executive Summary, the average home buyer in the state pays four times his or her salary to purchase a house.

Median gross monthly rent as reported in the 1990 Census is \$814. According to community contacts made during this examination, minimum rent in 1999 for a one-bedroom unit is \$750 a month. Approximately 80 percent of the housing units in the assessment area are owner-occupied. In 1990, the median age of all housing units was 38 years.

Labor, Employment and Economic Characteristics

According to New Jersey State Labor Force estimates, the three counties in the assessment area had an average estimated unemployment rate of 2.5 percent in February 1999 compared with the state rate of 4.4 percent. Somerset County leads all of New Jersey's 21 counties in creating new jobs. The U.S. Bureau of Labor Statistics' 1996 Report of Economic Patterns indicates that manufacturing has declined in the assessment area every year since 1990, yet it remains the fourth largest source of employment following services, wholesale/retail and government. For details, see Exhibit 1.

SCOPE OF EXAMINATION

The examination period covers Peapack's lending activities from October 1, 1997, through June 30, 1999. A full-scope analysis of the bank's performance was conducted using the *Interagency Procedures and Guidelines for Large Retail Institutions*. All calculations have been rounded to the nearest whole number.

Loan products evaluated include HMDA-related loans (home purchase loans, home improvement loans, and refinancings of such loans), small business loans and other loans that qualified as community development loans. At the bank's option, consumer loans and home equity loans were also evaluated. In addition, bank investments, grants and services qualifying as community development were included in the evaluation.

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

For evaluation of the geographic distribution of loans, geographies were classified on the basis of the Census Bureau's 1990 Census income data. Distribution of loans to borrowers of different income levels was determined based on 1999 HUD-estimated median family income data.

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

The bank's HMDA-related and small business loan performance was compared with the aggregate of all lenders in the bank's assessment area reporting real estate loans under HMDA and small business loans under the CRA. This data is reported annually, and the most recent year for which information was available is 1998. That year, there were 403 HMDA reporters and 60 small business reporters in the bank's assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Peapack's record of meeting the credit needs of its assessment area through its lending performance is rated "low satisfactory."

Lending Activity

Although Peapack's lending activity reflected an adequate response to credit needs in the bank's assessment area, overall lending during the examination period declined. On an annualized basis, Peapack exhibited an overall decrease in loan activity inside and outside the assessment area since the previous examination. Home purchase loans and refinancings increased 10 percent and 141 percent, respectively. Lending in the home improvement, consumer, home equity and small business categories dropped 44 percent, 24 percent, 16 percent and 15 percent, respectively. Attributing the decreased loan volumes to a decrease in personnel, Peapack's management stated that this trend does not indicate a change in its corporate philosophy or retail banking strategy.

The bank addressed credit needs by offering and originating a good volume of home purchase loans and refinancings. Merely adequate levels were found in home improvement, consumer and small business lending. Within the assessment area, Peapack originated 1,487 loans totaling \$109.9 million during the examination period: 299 were home purchase loans and refinancings totaling \$71.2 million, 812 were consumer loans totaling \$12.5 million, 153 were small business loans also totaling \$12.6 million, 176 were home equity loans totaling \$12.1 million, and 47 were home improvement loans totaling \$1.4 million.

During the examination period, a substantial portion of the bank's lending (78 percent) was originated in the assessment area. Of HMDA-related loan products, 23 percent or 346 loans were originated in the assessment area. Of the home equity and consumer loans, 12 percent or 176 loans and 55 percent or 812 loans, respectively, were originated in the assessment area. Ten percent or 153 small business loans were originated in the assessment area. For details, see Exhibit 2.

Geographic Distribution of Lending

Overall, the analysis demonstrated good geographic distribution in middle- and upper-income geographies in the bank's assessment area. Of the 28 census tracts in the bank's assessment area, none are LMI geographies.

Borrower Characteristics

The overall distribution of loans among borrowers of different income levels and businesses of different sizes was good. For details, see Exhibits 3 and 4.

Home Purchase Loans and Refinancings

Peapack's distribution of home purchase loans and refinancings among borrowers of different income levels was adequate during the examination period. Overall, the bank originated 11 percent of such loans to LMI borrowers, while LMI families represent 19 percent of the families in the assessment area. Eighty-nine percent of home purchase loans and refinancings were made to middle- and upper-income borrowers, with middle- and upper-income families representing 81 percent of the total number of families in the assessment area. In 1998, the bank's level of lending to LMI borrowers was lower than that of the aggregate of HMDA reporters in the bank's assessment area. Peapack originated 9 percent of its loans to LMI borrowers, while the aggregate originated 14 percent of such loans to LMI borrowers. From 1997 to 1998, the bank's lending to LMI borrowers decreased from 14 percent to 9 percent.

Overall, the bank's level of home purchase loans and refinancings was higher for moderate-income borrowers than low-income borrowers and considered adequate. The bank originated 7 percent of such loans to moderate-income families, who represent 12 percent of the families in the assessment area. In 1998, the bank's level of lending to moderate-income borrowers was lower than that of the aggregate of HMDA reporters in the bank's assessment area. Peapack originated 6 percent of its loans to moderate-income borrowers, while the aggregate originated 10 percent of such loans to that group. From 1997 to 1998, the bank's lending to moderate-income borrowers decreased from 11 percent to 6 percent.

During the examination period, the bank originated 4 percent of its home purchase loans and refinancings to low-income families, who represent 7 percent of the families in the assessment area. In 1998, the bank's level of lending to low-income borrowers was comparable to that of the aggregate of HMDA reporters in the bank's assessment area. Peapack originated 3 percent of its loans to low-income borrowers, as did the aggregate. From 1997 to 1998, the bank's lending to low-income borrowers remained the same at 3 percent of loans originated in each year.

After considering performance context and peer performance, home purchase lending and refinancings to low-income families were found to be adequate. The overall lending to low-income borrowers reflected the gap between income levels and housing costs, as discussed in the Performance Context section on page BB6. In 1990, the assessment area median family income was approximately \$75 thousand, and the median housing value was \$261 thousand. Thus, it would generally be difficult for a low-income family (whose annual income averages \$38 thousand) to purchase a home.

Home Improvement Loans

The evaluation of the bank's distribution of home improvement loans among borrowers of different income levels was limited because of the small number of such loans originated during the examination period. Peapack originated 12 or 27 percent of 45 such loans to LMI borrowers, while LMI families represent 19 percent of the families in the assessment area. In 1998, the bank's level of lending to LMI borrowers was lower than that of the aggregate of HMDA reporters in the bank's assessment area. Peapack originated 13 percent of its loans to LMI

borrowers, while the aggregate originated 16 percent of such loans to LMI borrowers. From 1997 to 1998, the bank's lending to LMI borrowers decreased from 25 percent to 13 percent.

The small number of home improvement loans originated makes an assessment irrelevant in the overall lending evaluation.

Home Equity Loans

Peapack's distribution of home equity loans among borrowers of different income levels was excellent. The bank originated 23 percent of home equity loans to LMI borrowers, while LMI families represent 19 percent of families in the assessment area. Seventy-seven percent of home equity loans were made to middle- and upper-income borrowers.

Overall, the bank's level of home equity loans to LMI borrowers was excellent in terms of both low- and moderate-income families. The bank originated 14 percent of home equity loans to moderate-income borrowers, while moderate-income families represent 12 percent of families in the assessment area. The bank originated 9 percent of home equity loans to low-income borrowers, who represent 7 percent of families in the assessment area. Aggregate lending data is unavailable for comparison.

Consumer Loans

Peapack's distribution of consumer loans among borrowers of different income levels was excellent. The bank originated 42 percent of consumer loans to LMI borrowers, while LMI households represent 21 percent of households in the assessment area. Fifty-eight percent of consumer loans were made to middle- and upper-income borrowers.

Overall, the bank's level of consumer loans to LMI borrowers was excellent in terms of both low- and moderate-income households. The bank originated 17 percent of consumer loans to moderate-income borrowers, while moderate-income households represent 12 percent of households in the assessment area. The bank originated 25 percent of consumer loans to low-income borrowers, who represent 9 percent of households in the assessment area. Aggregate consumer lending data is unavailable for comparison.

Lending to Small Businesses

Peapack's record of lending to businesses of different sizes was good. Approximately 81 percent of small business loans originated by Peapack during the examination period were for amounts less than or equal to \$100 thousand. The size of such loans averaged \$34 thousand, an amount that would typically meet the credit needs of smaller businesses. For details, see Exhibit 4. The bank's performance in 1998, however, was lower than that of the aggregate of other small business lenders in the bank's assessment area. Of Peapack's reported small business loans, 79 percent were for \$100 thousand or less, compared with the aggregate figure of 87 percent.

Approximately 73 percent of the bank's small business loans originated during the examination period were made to businesses with gross annual revenues ("GAR") of \$1 million or less. Eighty-nine percent of businesses in the assessment area have GAR of \$1 million or less. For loans up to \$100 thousand made to businesses with GAR of \$1 million or less, the average loan size was \$37 thousand. In 1998, the bank exceeded the aggregate in lending to small businesses. Peapack originated 72 percent of its small business loans to businesses with GAR of \$1 million or less compared with the aggregate's figure of 57 percent.

Community Development Lending

Peapack attained an adequate level of community development lending. During the examination period, community development lending totaled \$490 thousand. The bank had not made any community development loans during the previous examination review period.

Community development lending supported the development and rehabilitation of affordable rental housing. Community contacts made during the examination underscored the need for affordable housing, especially rental units.

Innovative or Flexible Lending Practices

Peapack made limited use of flexible lending practices that meet the credit needs of LMI individuals as well as small businesses. During the examination period, the bank originated 32 loans totaling \$5 million for which flexible lending practices were used.

The following products and programs are offered in all portions of the bank's assessment area:

First Time Homebuyer Program

The program was designed by the bank to assist first-time home buyers with incomes equal to or less than \$63 thousand. Normal underwriting standards are made flexible in order to accommodate the needs of the borrower. Loan-to-value ratios of 80 percent are allowed. During the examination period, nine loans were originated totaling \$895 thousand.

Private Mortgage Insurance ("PMI") Loans

The PMI Loan program uses the same underwriting standards as the First Time Homebuyer Program. The loan-to-value ratio, however, is raised to 95 percent with private mortgage insurance. During the examination period, the bank originated 23 loans totaling \$4 million.

INVESTMENT TEST

Peapack had an adequate level of qualified investments, exhibited an adequate level of responsiveness, and made limited use of innovative and complex investments to address community development needs.

Dollar Amount of Qualified Investments

The bank's level of qualified investments was adequate, totaling \$261.8 thousand. The total includes \$240 thousand invested in a state development bond and \$21.8 thousand in charitable grants and contributions to organizations supporting community development projects and programs.

Responsiveness of Qualified Investments to Credit and Community Development Needs

The bank demonstrated an adequate level of responsiveness to the most pressing community development needs in its assessment area and in areas abutting the assessment area. Ninety-two percent of investments or \$240 thousand were directed to economic development. Approximately 5 percent of investments or \$12.5 thousand were directed toward community services, and 3 percent of investments or \$9 thousand were directed toward affordable housing.

Innovative and Complex Investments

Peapack rarely uses innovative and complex investments. The investments made were neither innovative nor complex.

SERVICE TEST

Peapack's "high satisfactory" rating on the service test is based on the bank's record of providing a relatively high level of banking services within its assessment area. Retail services and delivery systems are readily accessible to essentially all portions of the assessment area. The bank provided an adequate level of community development services.

Retail Banking Services

Accessibility of Delivery Systems

During the examination period, Peapack operated ten full-service branches plus a loan production and administration office in its assessment area, and all are readily accessible to all portions of the assessment area. Although there are no LMI geographies as previously noted, 19 percent of families in the assessment area are in the LMI category. The assessment area consists of 28 tracts, 10 of which have slightly over 26 percent of households in the LMI category. Six or 60 percent of the bank's branches are located in these ten tracts providing readily accessible services.

Record of Opening and Closing of Branches

No branches were opened or closed during the examination period. The bank's branch closing policy is adequate and conforms with the Joint Interagency Policy Statement Regarding Branch Closings. The policy requires management to provide notice to regulatory agencies and

customers 90 days in advance of a closing, post 30-day closing notices in the affected branch or branches, and provide a list of other branches where customers may obtain banking services.

Availability and Effectiveness of Alternative Systems for Delivering Retail Banking Services

Peapack's alternative delivery systems do not vary in a way that inconveniences certain portions of the assessment area. As of the examination date, November 1, 1999, the bank operated eight 24-hour ATMs on-site. Another ATM with limited hours is available at the loan and administration office in Peapack. Neither the Pottersville branch nor the senior citizen retirement community at Fellowship Village in Basking Ridge, New Jersey, has an on-site ATM. The Fellowship Village branch has a cash-dispensing machine that is available to residents at all times. Other delivery systems include banking by mail and telephone, on-line balance confirmation, direct deposit and Automated Clearing House transactions ("ACH").

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

Peapack's business hours and services do not vary among branch offices in a way that inconveniences certain portions of the assessment area. That branch is open Monday, Wednesday and Friday from 9 a.m. to 1 p.m. Six of the offices provide Saturday hours from 9 a.m. to noon. All branches offer access to all of the bank's retail and credit products and services.

Community Development Services

Seminars

Peapack provided an adequate level of community development services, given its size, resource availability and the affluent nature of its assessment area. The bank participates in the fairs sponsored by the Somerset County Coalition on Affordable Housing and other programs for first-time home buyers.

Technical Assistance

Members of Peapack's board and various employees represent the bank in providing financial assistance on boards of trustees and committees that serve LMI populations and small businesses.

COMPLIANCE WITH FAIR LENDING LAWS

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

PRIMARY METROPOLITAN STATISTICAL AREA ANALYSES

PMSA 5015 (MIDDLESEX-SOMERSET-HUNTERDON, NJ)

Peapack's overall performance in PMSA 5015 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 borrowers of different income levels was good.
- Peapack's delivery systems were readily accessible to all portions of the PMSA.
- Based on its size and resources, Peapack provided an adequate level of community development services to the PMSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

Peapack's presence is concentrated in PMSA 5015 where, as of November 1, 1999, the bank maintained 8 of its 11 branches. The main office of the bank is located in this PMSA in Somerset County. During the examination period, Peapack originated 466 consumer loans, 222 HMDA-related loans, 100 home equity loans, and 91 small business loans in this area. This activity represents 59 percent of such loan originations in the bank's total assessment area. Approximately 76 percent of the loan originations in the PMSA were in Somerset County.

PERFORMANCE CONTEXT

Peapack's assessment area in PMSA 5015 includes portions of Somerset and Hunterdon Counties. In Somerset County, 15 census tracts are included in the assessment area, and Hunterdon County includes 5 census tracts. None of the census tracts are LMI.

Somerset County is one of New Jersey's most affluent areas. The HUD-estimated median family income in 1999 is \$76,700. The economy continues to grow and job creation over the last several years has been the highest in the state. Housing values are high making purchase by LMI families difficult without down payment and special interest-reduction subsidies.

LENDING TEST

Geographic Distribution of Lending

The geographic distribution of Peapack's lending activity was good in PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ). The activity of HMDA-related, small business and consumer lending was well distributed in the middle and upper income geographies

Small business loan activity was consistent with the distribution of businesses in PMSA 5015. Small business loan activity was almost four times greater in Somerset County than in Hunterdon County. For businesses with GAR of \$1 million or less, originations in Somerset County were 3.5 times greater in Somerset County than in Hunterdon County.

Of all businesses in PMSA 5015, 66 percent are located in Somerset County. Of all businesses with GAR of \$1 million or less in the bank's assessment area in PMSA 5015, 65 percent are located in Somerset County.

Borrower Characteristics

Peapack's record of lending in PMSA 5015 to borrowers of different income levels, including LMI individuals, and businesses of different sizes was good.

Home Purchase Loans and Refinancings

The bank's home purchase and refinance lending activity reflected good distribution of loans among individuals of different income levels. In PMSA 5015, 15 percent of loan approvals were to LMI borrowers, while 20 percent of families are LMI. Of total loans originated in PMSA 5015, 6 percent were to low-income borrowers while 7 percent of families are considered low-income. The similarity between lending activity and the distribution of lending by family income levels was excellent given the very high cost of housing in relation to borrower income levels.

Home Improvement Loans

The small number of home improvement loan originations makes an assessment irrelevant in the Borrower Characteristics evaluation.

Home Equity Loans

The distribution of home equity loans among borrowers of different income levels was excellent. Approximately 26 percent of these loans were made to LMI borrowers while 20 percent of the families in the area are considered LMI. Ten percent of the home equity loans were made to low-income borrowers while 7 percent of families are low-income.

Consumer Loans

The distribution of consumer loans to LMI borrowers was excellent. Approximately 44 percent of consumer loans were made to LMI borrowers while 22 percent of households in the area are considered LMI (consumer loans are compared with households rather than families). Low-income borrowers received 26 percent of consumer loans compared with 10 percent of low-income households.

Lending to Small Businesses

An analysis of small business lending revealed a good record of lending to small businesses in PMSA 5015. Of all small business loans reported, 77 percent were in amounts of \$10 thousand or less. The size of such loans averaged \$33 thousand. Of small business loans, 70 percent were made to businesses with GAR of \$1 million or less of all businesses in the PMSA, 88 percent have GAR of \$1 million or less. For loans up to \$100 thousand made to businesses with GAR of \$1 million or less, the average loan size was \$36 thousand.

SERVICE TEST

Retail Banking Services

Accessibility of Delivery Systems

The distribution of branches in this PMSA is excellent. The bank has 8 of its 11 branches in PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ). There are 20 census tracts in the assessment area in this PMSA, of which 7 have over 25 percent of households in the LMI category. Of the eight branches that the bank maintains, five or 63 percent are located in those tracts. Twenty-four-hour ATMs are located at all locations except for Pottersville and Fellowship Village. Fellowship Village has a cash-dispensing machine that is available to residents at all times. The ATM at the loan and administration office in Peapack is accessible during business hours.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

The Bernardsville, Califon and Pluckemin branches have hours on Saturdays. The branches in Gladstone, Bernardsville, Califon, Far Hills, Pluckemin and Pottersville offer evening hours.

Community Development Services

During the examination period, Peapack provided financial expertise to several affordable housing organizations in Somerset County. With the assistance of other organizations, the bank conducted homeownership counseling meetings and affordable housing seminars in the county. Bank employees serve as treasurers and on boards of three small business associations in Somerset County. The bank also assists in fundraising on behalf of an affordable housing organization in the county.

PMSA 5640 (NEWARK, NJ)

Peapack's overall performance in PMSA 5640 was adequate, based on the following summary conclusions:

- The overall distribution of loans across census tracts of different income levels was good.
- Distribution of loans among borrowers of different income levels was adequate.
- Peapack's delivery systems were readily accessible to all portions of the PMSA.
- The bank provided an adequate level of community development services to the PMSA.

DESCRIPTION OF INSTITUTION'S OPERATIONS

Peapack's presence is limited in PMSA 5640. As of the examination date, November 1, 1999, the bank maintained three branches in the PMSA.

During the examination period, the bank originated 345 consumer loans, 124 HMDA-related loans, 76 home equity loans, and 62 small business loans. This activity accounted for 41 percent of such loan originations in the bank's total assessment area.

PERFORMANCE CONTEXT

Peapack's assessment area in PMSA 5640 includes the southwestern portion of Morris County. None of the eight census tracts within the assessment area are LMI. The population in this portion of the assessment area was 45,078 in 1990.

Morris County is as affluent as its neighboring counties. The HUD-estimated median family income for 1999 is \$67,900. Housing values continue to be high, making purchase by LMI families difficult without substantial subsidies.

LENDING TEST

Geographic Distribution of Lending

The geographic distribution of Peapack's lending activity was good in PMSA 5640 (Newark, NJ). The activity of HMDA-related, small business and consumer lending in the PMSA was well distributed in the middle and upper income geographies..

The level of HMDA-related lending in PMSA 5640 was generally consistent with the population demographics and the level of owner-occupied housing in the Morris County assessment area. As in PMSA 5015, the number of home improvement loans was small but reasonably well distributed.

Consumer loan originations reflected a good geographic distribution of loans. Census tract penetration was high for most consumer loan products.

Small business loan activity was good. Eighty-eight percent of business establishments in the assessment area are located in upper-income geographies.

Borrower Characteristics

Home Purchase Loans and Refinancings

The bank's home purchase and refinance lending activity reflected an adequate distribution of loans among individuals of different income levels. Five percent of the loans in this category were to LMI borrowers. In this assessment area, 17 percent of families are considered LMI. The disparity between lending activity and the distribution of lending by family income levels was reasonable given the very high cost of housing in relation to borrower income levels and the relative absence of mortgage subsidies and down payment assistance.

Home Improvement Loans

As in PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ), the low number of home improvement loan originations makes an assessment irrelevant in the Borrower Characteristics evaluation.

Home Equity Loans

The distribution of home equity loans among LMI borrowers was good. Approximately 18 percent of these loans were made to LMI borrowers while 20 percent of the families in the area are considered LMI. Loans to low-income borrowers accounted for 7 percent of total home equity loans while 5 percent of the families in the area are low-income.

Consumer Loans

The bank's consumer lending in PMSA 5640 reflected excellent distribution of loans among borrowers of different income levels. Consumer loans to LMI borrowers represented 39 percent of total originations in the PMSA while 17 percent of households are considered LMI (consumer loans are compared with households rather than families). Loans to low-income borrowers accounted for 26 percent of total originations while 8 percent of households are low-income.

Small Business Loans

An analysis of small business lending revealed a good level of lending to small businesses in the PMSA. Of all small business loans reported, 87 percent were for amounts of \$100 thousand or less. The size of such loans averaged \$35 thousand. Of all small business loans, 77 percent were to businesses with GAR of \$1 million or less. Of all businesses in the PMSA, 91 percent have GAR of \$1 million or less. For loans up to \$100 thousand made to businesses with GAR of less than or equal to \$1 million, the average loan size was \$39 thousand.

SERVICE TEST

Retail Banking Services

Accessibility of Delivery Systems

The bank's delivery systems in PMSA 5640 (Newark, NJ) is excellent. Of the eight census tracts within the bank's assessment area in this PMSA, two have over 25 percent of LMI households. Peapack has one of its three branches in such a tract, indicating that the bank's services are readily accessible to LMI persons. Twenty-four-hour ATMs are located at all three branches.

Reasonableness of Business Hours and Services in Meeting Assessment Area Needs

All three of the branches in this PMSA have extended evening hours and are open on Saturday mornings.

Community Development Services

The level of community development services was adequate in this PMSA. During the examination period, Peapack provided technical expertise to a county business association. Members of the staff also assisted in fundraising for a Morris County soup kitchen.

EXHIBITS

| EXHIBIT 1 | |
|--|-----------|
| Summary of Assessment Area Demographics | |
| CENSUS TRACT CHARACTERISTICS | |
| Total Number of Tracts | 28 |
| Number of Low- and Moderate-income Tracts | 0 |
| ASSESSMENT AREA DEMOGRAPHICS | |
| Population | 138,130 |
| Number of Families | 38,419 |
| Number of Low-income Families | 2,534 |
| Percent Low-income Families | 6.6% |
| Number of Moderate-income Families | 4,627 |
| Percent Moderate-income Families | 12% |
| Number of Families Below Poverty Level | 347 |
| Percent Families Below Poverty Level | 0.9% |
| Median Family Income (1990) | \$75,108 |
| Percent Owner-occupied Units | 79.4% |
| Percent Rental Units | 15.5% |
| Median Housing Value (1990) | \$261,092 |
| Median Gross Rent | \$814 |
| Number of Business Establishments | 5,831 |
| Number of Business Establishments with GAR of \$1 Million or Less | 5,184 |

EXHIBIT 2

Summary of Lending Inside and Outside Assessment Area

October 1, 1997 – June 30, 1999

| | INSIDE ASSESSMENT AREA | | | | OUTSIDE ASSESSMENT AREA | | | | TOTALS | |
|--|------------------------|-------------|-----------------|-------------|-------------------------|-------------|-----------------|-------------|--------------|-----------------|
| Loan Purpose | # of Loans | % of Loans | \$ Amt. ('000s) | % of Total | # of Loans | % of Loans | \$ Amt. ('000s) | % of Total | # of Loans | \$ Amt. ('000s) |
| Home Purchase & Refinancings | 299 | 20% | 71,244 | 65% | 76 | 18% | 14,823 | 58% | 375 | 86,067 |
| Home Improvement | 47 | 3% | 1,434 | 1% | 14 | 3% | 291 | 1% | 61 | 1,725 |
| Multifamily | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| TOTALS (HMDA-related) | 346 | 23% | 72,678 | 66% | 90 | 21% | 15,114 | 59% | 436 | 87,792 |
| TOTALS (Small Business/ Small Farm) | 153 | 10% | 12,593 | 11% | 59 | 14% | 4,652 | 18% | 212 | 17,245 |
| Home Equity | 176 | 12% | 12,093 | 11% | 25 | 6% | 1,144 | 4% | 201 | 13,237 |
| Consumer | 812 | 55% | 12,491 | 11% | 267 | 60% | 4,691 | 18% | 1,069 | 17,182 |
| TOTALS (Consumer) | 988 | 66% | 24,584 | 22% | 282 | 64% | 5,835 | 23% | 1,270 | 30,419 |
| TOTALS ALL LOANS | 1,487 | 100% | 109,855 | 100% | 431 | 100% | 25,601 | 100% | 1,918 | 135,456 |

EXHIBIT 3

Analysis of Loans Across Borrower Income Levels

| | Home Purchase & Refinancings | Home Improvement | Home Equity | Consumer |
|---|------------------------------|------------------|-------------|------------|
| LOW INCOME | | | | |
| Less than 50% of median income | | | | |
| Number of Loans | 11 | 4 | 15 | 183 |
| Percentage of Total | 3.80 | 8.89 | 8.93 | 24.60 |
| Percentage of Families | 6.60 | 6.60 | 6.60 | 9.19* |
| Percentage of Loans Compared with % of Families (Consumer Loans Compared with Households) | 57 | 135 | 135 | 269 |
| MODERATE INCOME | | | | |
| At least 50% & less than 80% of median income | | | | |
| Number of Loans | 21 | 8 | 23 | 127 |
| Percentage of Total | 7.24 | 17.78 | 13.69 | 17.07 |
| Percentage of Families | 12.04 | 12.04 | 12.04 | 11.65* |
| Percentage of Loans Compared with % of Families (Consumer Loans Compared with Households) | 60 | 148 | 114 | 147 |
| MIDDLE INCOME | | | | |
| At least 80% & less than 120% of median income | | | | |
| Number of Loans | 51 | 13 | 30 | 155 |
| Percentage of Total | 17.59 | 28.89 | 17.86 | 20.83 |
| Percentage of Families | 20.86 | 20.86 | 20.86 | 18.38* |
| % of Loans Compared with % of Families (Consumer Loans Compared with Households) | 84 | 138 | 86 | 113 |
| UPPER INCOME | | | | |
| 120% or more of median income | | | | |
| Number of Loans | 207 | 20 | 100 | 279 |
| Percentage of Total | 71.38 | 44.44 | 59.52 | 37.50 |
| Percentage of Families | 60.50 | 60.50 | 60.50 | 60.78* |
| Percentage of Loans Compared with % of Families (Consumer Loans Compared with Households) | 118 | 73 | 98 | 62 |
| TOTALS | 290 | 45 | 168 | 744 |

* Percentage of households

INSERT

EXHIBIT 4

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EXHIBIT 5

Community Development Lending Activity

| Project Description | Commitment (\$'000s) | Outstanding (\$'000s) | New Money (\$'000s) | CD Credit | Housing Units |
|------------------------------------|----------------------|-----------------------|---------------------|-----------|---------------|
| Affordable Housing | \$240 | \$240 | \$240 | | 20 |
| Refinance/ Rehabilitation | 250 | 67 | | | 48 |
| Subtotal Affordable Housing | \$490 | \$307 | \$240 | | 68 |
| TOTALS | \$490 | \$307 | \$240 | | 68 |

EXHIBIT 6

Qualified Investment Activity

| Project Name | Description | Commitment | % | Type |
|-----------------------------|------------------------------------|------------------|-------------|----------|
| New Jersey Development Bond | Commercial/ Industrial Development | \$240,000 | 92% | ED |
| Donations | Grants | 21,764 | 8% | AH,ED,CS |
| TOTALS | | \$261,764 | 100% | |

Donations by Type of Investment

| | Commitment | % |
|-----------------------------|-----------------|-------------|
| Economic Development ("ED") | 250 | 1% |
| Community Services ("CS") | 12,464 | 57% |
| Affordable Housing ("AH") | 9,050 | 42% |
| TOTALS | \$21,764 | 100% |

EXHIBIT 7

Demographic Summaries of Assessment Areas

PMSA 5015 (Middlesex-Somerset-Hunterdon, NJ)

| | Census Tracts by Income Level | | |
|--|-------------------------------|--------|--------|
| | Middle | Upper | TOTALS |
| Census Tracts for Analysis | 3 | 17 | 20 |
| % of Tracts for Analysis | 15% | 85% | 100% |
| Total Population | 13,724 | 79,328 | 93,052 |
| % of Total Population | 14.7% | 85.3% | 100% |
| Families Residing in Assessment Area | 3,734 | 22,286 | 26,020 |
| % Families Residing in Assessment Area | 14% | 86% | 100% |
| Owner-occupied Housing Units | 3,910 | 24,497 | 28,407 |
| % Owner-occupied Units | 13.8% | 86.2% | 100% |
| Rental Housing Units | 1,023 | 3,687 | 4,710 |
| % Rental Housing Units | 21.7% | 78.3% | 100% |
| Total Business Establishments | 1,083 | 3,199 | 4,282 |
| % of Business Establishments | 25% | 75% | 100% |

PMSA 5640 (Newark, NJ)

| | Census Tracts by Income Level | | |
|--|-------------------------------|--------|--------|
| | Middle | Upper | TOTALS |
| Census Tracts for Analysis | 1 | 7 | 8 |
| % of Tracts for Analysis | 12.5% | 87.5% | 100% |
| Total Population | 10,376 | 34,702 | 45,078 |
| % of Total Population | 23% | 77% | 100% |
| Families Residing in Assessment Area | 2,772 | 9,627 | 12,399 |
| % Families Residing in Assessment Area | 22% | 78% | 100% |
| Owner-occupied Housing Units | 2,009 | 10,033 | 12,042 |
| % Owner-occupied Units | 16.7% | 83.3% | 100% |
| Rental Housing Units | 1,836 | 1,352 | 3,188 |
| % Rental Housing Units | 57.6% | 42.4% | 100% |
| Total Business Establishments | 369 | 1,483 | 1,852 |
| % of Business Establishments | 20% | 80% | 100% |

* The bank's assessment areas have no low- or moderate-income tracts.

CRA APPENDICES

CRA APPENDIX A

| SCOPE OF EXAMINATION | | | |
|---|------------------------|---|--|
| TIME PERIOD REVIEWED | | 10/1/97 TO 6/30/99 | |
| FINANCIAL INSTITUTION | | | PRODUCTS REVIEWED |
| Peapack-Gladstone Bank Gladstone, NJ | | | <ul style="list-style-type: none"> • Home purchase loans • Refinancings • Home improvement loans • Small business • Consumer loans • Home equity loans |
| AFFILIATE(S) | | | PRODUCTS REVIEWED |
| Peapack Gladstone Mortgage Group, Inc. | | | None |
| LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION | | | |
| ASSESSMENT AREA | TYPE OF EXAM | BRANCHES VISITED | OTHER INFORMATION |
| NEW JERSEY Portions of PMSA 5015 (Middlesex-Somerset- Hunterdon, NJ) and PMSA 5640 (Newark, NJ) | On-site On-site | 158 U.S. Highway 206 North, Gladstone, NJ 07934 | |

CRA APPENDIX B
GLOSSARY

ACH: Automated Clearing House.

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.

ATM: Automated teller machine.

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

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

CRA: Community Reinvestment Act.

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 and multifamily loans.

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

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

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

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

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

PEERS: Similarly situated banks.

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

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

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

REFINANCINGS: Refinanced HMDA-reportable home purchase loans.

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.

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.