
Comptroller of the Currency
~~Administrator of National Banks~~
Northeastern District
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Public Disclosure

July 26, 1996

Community Reinvestment Act Performance Evaluation

Carnegie Bank, N. A.
Charter Number: 22217

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Princeton, N.J. 08540

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New Jersey Duty Station
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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.

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 Carnegie Bank, N.A. prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 26, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated Satisfactory.

The institution rating is based on the following:

- Loan to deposit ratio is reasonable.
- Lending in the assessment area is strong.
- Lending to businesses of different sizes is reasonable.
- Small business loans are reasonably distributed among the geographies.

The following table indicates the performance level of Carnegie Bank, N.A. with respect to each of the five performance criteria.

Small Institution Assessment Criteria	Carnegie Bank, N. A. Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-deposit ratio		x	
Lending in assessment area	x		
Lending to borrowers of different incomes and to businesses of different sizes		x	
Geographic distribution of loans		x	
Response to complaints	No complaints were received since the prior examination.		

Description of Institution

Carnegie Bank, N.A. is a \$250 million institution. Its main office is located in West Windsor in Princeton, New Jersey. Carnegie operates six branches in New Jersey and recently opened a branch in Pennsylvania. The New Jersey branches are located in Princeton, Hamilton Township (Mercerville), Marlton, Denville, Montgomery, and Toms River. The bank has been growing rapidly since its formation in March 1988, having opened three new branches in the past year alone.

Carnegie Bank began as a state chartered bank, converting to a national bank charter in October 1990. The bank's customer base is primarily small businesses and professionals. Loans to small businesses aggregated \$36.1 million or 53% of total originations in 1995, and \$34.6 million or 52% of total originations through July 1996. Principal products include commercial mortgages, commercial loans, and construction loans. Originations of these types of loans aggregated \$61.1 million in 1995, and \$65.2 million through July 1996. Carnegie Bank offers residential mortgages as an accommodation to existing customers. Originations of HMDA-reportable loans aggregated \$6.6 million or 10% of total originations in 1995, and \$1.8 million through March 1996. The bank operates in a highly competitive environment. Its primary competitors include a dozen regional companies and around 60 community banks. Its branches are primarily in western New Jersey where it began. Its competitiveness in the eastern and more urban sections of New Jersey, which are included in the bank's assessment area, is diminished by Carnegie's limited presence in those areas.

Description of the Assessment Area

Carnegie Bank has branches in the states of New Jersey and Pennsylvania, and in the multistate Metropolitan Statistical Area (MSA # 6160) of Philadelphia, PA. Carnegie has designated separate assessment areas around each branch for CRA and marketing purposes. In some cases this has resulted in overlap because relationships are assigned to loan officers rather than by geographies. Because of this overlap, we have, unless otherwise noted, consolidated the bank's performance in each of the internally identified areas into a conclusion addressing one overall assessment. A table in Appendix A shows the breakdown of census tracts in these areas.

Bank management has identified financing for small businesses as among the credit needs in its assessment area.

The overall assessment area has a population of 7 million with a median family income of \$46,343. There are roughly 1,800,000 families of which 20% are low-income and 18% are moderate-income families. There are a total of 1,680 census tracts in the assessment area with 10% low-income, 19% moderate-income, 43% middle-income, and 26% upper-income census tracts. This information is detailed in the Appendix of this document. Housing permits for new residential units declined by 17% in 1994 (the last year such data is available) after a strong 1993 when housing permits jumped by 48%. Business establishments continue their steady growth with the retail trade and services sectors

accounting for 47% of the total number of establishments. The assessment area is enjoying a generally strong economy, paralleling that of New Jersey which is recovering from a recent recession. Office vacancies have stabilized and are currently declining. In New Jersey, from the late 1980's through 2000, professionals, paraprofessionals and technical employment is expected to increase 32% to 21% of the state's workforce.

Denville, NJ - This area consists of sections of two MSAs in the Northern New Jersey region with nearly two million people. Of the 508,000 families in the area, 19% are low-income and 17% are moderate-income.

MSA # 875 - The median family income for this MSA is \$52,659. The area includes sections of Bergen and Passaic counties. The 7 low-income and the 6 moderate-income census tracts are in the city of Paterson in Passaic County. Low-income families make up 19%, and moderate-income families make up 19% of the total number of families in this MSA.

MSA # 5640 - The median family income for this MSA is \$50,047. The area includes sections of Essex, Morris, Sussex, and Union counties. Low-income families make up 20%, and moderate-income families make up 18% of the total number of families in this MSA. A substantial majority of the low- and moderate-income census tracts included in the area are in East Orange, Irvington, and Newark in Essex County, and in Elizabeth and Plainfield in Union County which are farther away from Morris County where the branch is located. Carnegie Bank's Denville Office, which began operations in July 1993, is located in this MSA.

Toms River, NJ - This area consists of sections of Monmouth and Ocean counties in MSA # 5190 along the Jersey shore region. Total population is 609,000. Of the 167,000 families in the area, low-income and moderate-income families comprise 21% each of the total.

MSA # 5190 - The median family income for this MSA is \$46,615. Among the MSAs in the bank's areas, this MSA has the highest number of senior citizens (17% of the total population) and of households receiving retirement income (21% of total households). A majority of the low- and moderate-income census tracts are in Asbury Park in Monmouth County and in Lakewood in Ocean County. Low-income families make up 18%, and moderate-income families make up 19% of the total number of families in this MSA. Carnegie Bank opened its first branch in this MSA at Toms River in October 1995.

South/Central, NJ - Carnegie Bank has designated sections of MSAs # 0560, # 5015, and # 8480 with a total population of 914,000. Of the 238,000 families in the area, 16% are low-income and 19% are moderate-income.

MSA # 0560 - The median family income for this MSA is \$39,034 which is

the lowest among the bank's areas. Carnegie has designated four census tracts in Atlantic county which are all middle-income. Low-income families make up 18%, and moderate-income families make up 19% of the total number of families in this MSA.

MSA # 5015 - The median family income for this MSA is \$55,147. The area includes sections of Hunterdon, Middlesex, and Somerset counties. A majority of the low- and moderate-income census tracts are in New Brunswick, Middlesex County. Low-income families make up 16%, and moderate-income families make up 20% of the total number of families in this MSA.

MSA # 8480 - The median family income for this MSA is \$48,490. The area includes sections of Mercer county. The low- and moderate-income census tracts are in the city of Trenton. Low-income families make up 19%, and moderate-income families make up 18% of the total number of families in this MSA. Carnegie Bank began operations in 1988 in this MSA where it currently has three branches. Its Princeton branch opened in March 1988; Hamilton branch in August-1989; and its Montgomery branch in January 1996.

Multistate MSA # 6160 - This area consists of sections of this multistate MSA which traverses South/Central New Jersey. Included are sections of Burlington and Gloucester counties in New Jersey, and sections of Bucks, Delaware, and Montgomery counties in Pennsylvania. Also included are all of Camden county in New Jersey and all of the city of Philadelphia where a substantial majority of the low- and moderate-income census tracts are. The area includes a total population of 3 .6 million people. The median family income for this MSA is \$42,666. There are 924,000 families in the area, including 22% low-income and 18% moderate-income families. Carnegie Bank has a branch in Marlton, New Jersey and recently opened a branch in Langhorne, Pennsylvania. Marlton began operations in December 1991 and Langhorne in June 1996.

Conclusions with Respect to Performance Criteria

Loan-to-deposit analysis

The loan to deposit ratio is reasonable. It has averaged 73% in the last eight quarters, fluctuating between a low of 68% and a high of 77%. This average is in line with the bank's target ratio of 75%. Carnegie slightly outperformed its national peers throughout most of the last eight quarters. We also compared Carnegie's ratio with similar banks in New Jersey and found that when compared with national banks of the same size its performance is about the same.

Credit extended inside and outside the assessment area

Carnegie has originated a substantial portion of loans in its assessment area. In 1995, it extended inside its assessment area 95% of HMDA reportable loans and nearly 100% of small business loans. The same performance is evident through mid-July 1996.

Distribution of credit within the assessment area

Lending to businesses of different sizes and to borrowers of different incomes

by loan size	Small Business	
	1995	1996
less than \$100,000	10%	9%
\$100,000 - \$250,000	14%	12%
\$250,000 - \$500,000	11%	10%
more than \$500,000, but less than \$1,000,000 ¹	26%	24%

Distribution of loans to businesses of different sizes is reasonable as shown in the table above. We used loan size as a proxy for analyzing lending activity capturing loans in amounts of less than \$1,000,000 as loans to small businesses. Of the commercial loans originated in 1995, 61% were loans to small businesses and nearly half were commercial mortgages for office condominium units used by professionals like doctors, lawyers, and accountants. Through July 1996, loans to small businesses aggregated 55% of total

¹ Carnegie originated commercial loans in excess of \$1,000,000 which aggregated to 39% of total originations in 1995, and 45% of total originations through July 1996.

originations of commercial loans. In partnership with the State of New Jersey and Governor Whitman's Adopt A Neighborhood Program Carnegie Bank developed its Small Business Advantage Line to address an unmet credit need. This product provides quick credit decision turnaround, simplified paperwork for a revolving line of credit for amounts up to \$100,000 secured and \$50,000 unsecured. To-date the bank has originated \$1,350,000 under this program since its official rollout in December 1995.

Distribution of HMDA-reportable loans to low- and moderate-income individuals is low. As previously noted, Carnegie Bank offers these types of loans primarily as accommodations to existing customers. In 1995, residential mortgages as reported in the HMDA-Loan Application Register aggregated 6% to low- and moderate-income individuals, 9% to middle-income individuals, and 86% to upper-income individuals. Notwithstanding, management is committed to serving the credit needs of all segments of the bank's areas. To this end, management has engaged in lending activities benefitting low- and moderate-income individuals and areas by financing local developers, some of whose projects target housing for low- and moderate-income families and households. One such loan extended in May-1996 has resulted in 200 rental units targeted to low- and moderate-income tenants in the Trenton area. Through this same relationship Carnegie has in the past three years financed a total of 500 units geared towards the low- and moderate-income rental market in the Hamilton/Trenton area. Carnegie has also provided additional financing to help support the pre-construction stage of an affordable housing project for the developmentally disabled by providing a no-interest loan. These are reflected in our analysis of small business lending activity.

Geographic distribution of loans

Census Tracts	HMDA 1995	Small Business- 1995
Low Income	0%	5%
Moderate Income	1%	5%
Middle Income	36%	43%
Upper Income	63%	47%

Penetration of low- and moderate-income geographies is low as shown in the table above. It should be noted that about half of these geographies are in areas surrounding newly opened branches in Toms River and Montgomery Township in New Jersey, and in Langhorne, Pennsylvania; and in the city of Philadelphia. Carnegie has included the entire city of Philadelphia in its assessment areas pending increased business opportunities becoming available. The city accounts for 45% of the low-income and 40% of moderate income census tracts in the bank's combined areas. As these new opportunities come to fruition lending

penetration is expected to improve in this area. This is evident in the lending activity through July 1996 when the bank already surpassed 1995 originations. A further discussion of the bank's performance in MSAs where it has branches is included in the sections which review Carnegie Bank's state rating and its multistate MSA rating.

Compliance with the anti-discrimination laws is satisfactory. A concurrent examination did not identify any violations of the substantive provisions of the anti-discrimination laws and regulations. The review showed no disparate treatment on a prohibited basis. Lending guidelines and loan terms are applied equally. Training was provided to personnel, including loan officers.

State Rating

Small Institution Assessment Criteria	Carnegie Bank, N. A. Performance Levels in the State of New Jersey		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Lending to borrowers of different incomes and to businesses of different sizes		x	
Geographic distribution of loans		x	
Response to complaints	No complaints were received since the prior examination.		

CRA Rating for New Jersey: Satisfactory

Description of Carnegie Bank's Operations in New Jersey;

Carnegie Bank has rapidly expanded its branch network, operating six branches in New Jersey. It opened the last two recently - its fifth branch in the state in October 1995 at Toms River on the Jersey shore, and its sixth branch in January 1996 at Montgomery Township in Central New Jersey.

Conclusions with Respect to Performance Tests in New Jersey:

In 1995, 81% of commercial loans and all of the HMDA reportable loans originated by Carnegie Bank were extended in the state. Through July 1996, 97% of commercial loans originated by Carnegie Bank were extended in the state.

The mainstay of Carnegie Bank's lending is in commercial loans which were reasonably distributed to businesses of different sizes as shown in the table below. In 1995, Carnegie Bank originated in New Jersey \$30.0 million in small business loans, and \$32.6 million through July-1996. We used loan size as a proxy for analyzing lending activity capturing loans in amounts of less than \$1,000,000 as loans to small businesses. Nearly half of the loans were commercial mortgages for office condominium units used by professionals like doctors, lawyers, and accountants.

by loan size	Small Business Loans Originated in New Jersey	
	1995	1996
less than \$100,000	12%	8%
\$100,000 - \$250,000	16%	11%
\$250,000 - \$500,000	13%	10%
more than \$500,000, but less than \$1,000,000 ²	22%	24%

Penetration of low- and moderate-income geographies is low reflecting the footprint of the branch network. Branch location and length of operations have positively impacted lending activity. 80% of the HMDA loans were originated in counties where a branch is located, and 70% were extended by the more established branches. As previously discussed, distribution of HMDA-reportable loans to low- and moderate-income individuals is low. However, Carnegie Bank has provided financing to local developers who rehabilitate affordable rental units for low- and moderate-income families and households. This is particularly true in the Trenton area where the bank, working with local developers, has succeeded in financing projects which provide affordable housing units for low- and moderate income individuals and in low- and moderate-income neighborhoods.

Performance in MSAs where the bank has branches is discussed below.

MSA # 5640 - Carnegie Bank has a branch in Denville which is in Morris County. This MSA accounted for 37% of HMDA loans and 29% of small business loans originated in 1995. Activity is predominantly in Morris County where branch location has impacted lending patterns. 83% of HMDA loans and 91% of small business loans reported in this MSA in 1995 were originated in Morris County. Lending activity in this MSA is good overall, especially to businesses of different sizes. All of the commercial loans originated in this MSA were to small businesses with 11% in amounts less than \$50,000, 73% in amounts between \$50,000 and \$250,000, and 16% in amounts between \$250,000 and \$500,000. Penetration of low- and moderate-income census tracts is low. The low- and moderate-income census tracts in this MSA are located in the eastern and more densely populated counties of Union and Essex where the bank has no presence. Carnegie Bank is seeking to improve its record in these areas by seeking representatives from these areas to become members of the Denville Branch local community advisory board. These advisory boards have been good sources of referral business, including those from local developers.

² Carnegie originated commercial loans in excess of \$1,000,000 which aggregated to 37% of total originations in New Jersey in 1995, and 47% of total originations in the state through July 1996.

Management has found these arrangements to be successful as proven in the Hamilton/Trenton areas.

MSA # 5190 - Carnegie Bank opened a branch in Toms River in November 1995, its first in this MSA and its fifth branch in the state. Loan generation reflects the fact that the branch has been in operation for only two months in 1995. Lending activity in this MSA accounted for 9% of HMDA loans and 3% of small business loans originated in 1995. All of the HMDA loans were for home improvement. Of the commercial loans originated in this MSA, 57% were in amounts less than \$250,000, and 43% in amounts between \$250,000 and \$500,000. Of the small business loans extended in this MSA, 33% were in moderate-income census tracts, 22% in middle-income, and 45% in upper-income census tracts.

MSA # 8480 - Carnegie Bank has branches in Princeton (Main Office), Mercerville (Hamilton), and Montgomery Township (Montgomery). The Montgomery Office, opened in January 1996, is Carnegie Bank's sixth in the state. Lending activity in this MSA is reasonable with 39% of HMDA loans and 30% of small business loans originated in 1995. Penetration of the low- and moderate-income geographies is reasonable overall. Of small business loans generated in this MSA, Carnegie Bank extended 11% to low-income and 9% to moderate-income census tracts. There were no HMDA loans originated in these geographies. Lending to businesses of different sizes in this MSA is likewise reasonable. Of the small business loans generated in this MSA, the bank extended 11% in amounts less than \$50,000, 42% in amounts between \$50,000 and \$250,000, 22% in amounts between \$250,000 and \$500,000, and 25% in amounts between \$500,000 and \$1,000,000. In 1995, 75% of loans for home purchase and 36% of loans for home improvement were originated in this MSA.

Multistate MSA Rating

Small Institution Assessment Criteria	Carnegie Bank, N. A. Performance Levels MSA # 6160		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Lending to borrowers of different incomes and to businesses of different sizes		x	
Geographic distribution of loans		x	
Response to complaints	No complaints were received since the prior examination.		

CRA Rating for the Philadelphia, PA Multistate MSA # 6160: Satisfactory

Description of Carnegie Bank's Operations in MSA # 6160:

Carnegie Bank has two branches in this multistate MSA which includes Philadelphia. The Marlton branch in Burlington County, New Jersey has been in operation since 1990. In contrast, the recently opened branch in Langhorne, its first branch in Pennsylvania, has only been in operation since July 1996.

Conclusions with Respect to Performance Tests in MSA # 6160:

Lending activity in this multistate MSA accounted for 9% of HMDA loans and 20% of small business loans originated in 1995.

Distribution of loans to businesses of different sizes is reasonable. We used loan size as a proxy for analyzing lending activity with loans less than \$1,000,000 considered loans to small businesses. 20% of small business loans in 1995 were originated in this MSA with 5% in amounts less than \$250,000, 3% in amounts between \$250,000 and \$500,000; and 12% in amounts between \$500,000 and \$1,000,000.

Penetration of low- and moderate-income geographies is low, although about 80% of these geographies are in the city of Philadelphia as shown in Appendix A. Most of the other low- and moderate-income census tracts in this MSA are in Bucks County, Pennsylvania and in Camden County, New Jersey. As previously mentioned, the bank does not have a branch in Philadelphia, but has included the entire city in its area. Carnegie Bank's Langhorne Office has been in operation for only a month. To strengthen its presence in surrounding Camden

County, Carnegie Bank has contacted community groups including advocates for affordable housing. To date, these initiatives have not resulted in any direct loan origination. However, Carnegie Bank continues to provide financing to local developers who rehabilitate properties for affordable rental units in low- and moderate-income neighborhoods and/or for low- and moderate-income families and households in Trenton. One such project resulted in the rehabilitation of 16 units in the Trenton area for low- and moderate-income families. Another project, also in Trenton, enabled the rehabilitation of houses for sale to low-income families.

All of the HMDA loans in this MSA were for home improvement in middle- and upper-income census tracts.

Appendix A
Distribution of Census Tracts as a % of MSA Median Family Income

MSA	County	Low	Moderate	Middle	Upper	Total
Denville, NJ						
0875	Bergen	0	0	2	8	10
	Passaic	7	6	22	9	44
5640	Essex	56	59	34	41	190
	Morris	1	3	33	51	88
	Sussex	0	0	23	9	32
	Union	6	28	45	19	98
Toms River, NJ						
5190	Monmouth	6	8	20	19	53
	Ocean	3	22	54	3	82
South/Central NJ						
0560	Atlantic	0	0	4	0	4
5015	Hunterdon	0	0	10	5	15
	Middlesex	4	11	80	21	116
	Somerset	0	7	27	25	59
8480	Mercer	9	12	27	15	63
Multi-state MSA # 6160						
	Bucks, PA	2	4	49	43	98
	Burlington, NJ	2	9	58	40	109
	Camden, NJ	18	15	61	26	120
	Delaware, PA	0	0	2	0	2
	Gloucester, NJ	1	3	37	13	54
	Montgomery, PA	0	0	22	51	73
	Philadelphia, PA	94	124	114	35	367
Total		209	311	724	433	1,677
		12%	19%	43%	26%	100%