

# **PUBLIC DISCLOSURE**

April 3, 2017

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Lakeland Bank  
Certificate Number: 19953

2717 Route 23 South  
Newfoundland, New Jersey 07435

Federal Deposit Insurance Corporation  
Division of Depositor and Consumer Protection  
350 Fifth Avenue, Suite 1200  
New York, New York 10118

This document is an evaluation of this 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. 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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## INSTITUTION'S CRA RATING

**INSTITUTION'S CRA RATING:** This institution is rated **Outstanding**.

The institution is rated “Outstanding”. An institution in this group has an outstanding record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Lakeland Bank with respect to the Lending, Investment, and Service Tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding		X	X
High Satisfactory	X		
Low Satisfactory			
Needs to Improve			
Substantial Noncompliance			
* The Lending Test is weighted more heavily than the Investment and Service Tests when arriving at an overall rating.			

The following factors influenced the assigned rating.

**The Lending Test is rated High Satisfactory.**

- Lending levels reflect excellent responsiveness to assessment area credit needs.
- A high percentage of loans are made in the institution’s assessment area.
- The geographic distribution of loans reflects adequate penetration throughout the assessment area.
- The distribution of borrowers reflects, given the product lines offered by the institution, good penetration among retail customers of different income levels and business customers of different revenue sizes.
- The institution exhibits a good record of serving the credit needs of the most economically disadvantaged areas of its assessment area, low-income individuals, and/or very small businesses, consistent with safe and sound banking practices.

- The institution uses innovative and flexible lending practices in order to serve assessment area credit needs.
- The bank is a leader in making community development loans.

**The Investment Test is rated Outstanding.**

- The bank has an excellent level of qualified community development investments and grants, occasionally being in a leadership position.
- The bank exhibits good responsiveness to credit and community economic development needs.
- The bank occasionally uses innovative and complex investments to support community development initiatives.

**The Service Test is rated Outstanding.**

- The bank's retail delivery systems are readily accessible to all portions of the assessment area. In addition, the bank offers a variety of alternative delivery systems.
- The bank's opening and closing of branches has not adversely affected the accessibility of its delivery systems, particularly in low- and moderate- income geographies and to low- and moderate- income individuals.
- Services and business hours are tailored to the convenience and needs of the assessment area, particularly low- and moderate- income geographies and individuals.
- The bank is a leader in providing community development services.

## **SCOPE OF EXAMINATION**

### **General Information**

This evaluation covers the period from the prior evaluation dated April 21, 2014, to the current evaluation dated April 3, 2017. Examiners used Interagency Large Institution CRA Examination Procedures to evaluate the bank's CRA performance. Large Bank CRA Examination Procedures consider three performance criteria: the Lending Test, the Investment Test, and the Service Test.

The Lending Test evaluates the institution's performance pursuant to the following criteria:

- Lending activity
- Assessment area concentration
- Geographic distribution of loans
- Borrower profile
- Responsiveness to credit needs of low- and moderate-income geographies and low- and moderate-income individuals, small businesses
- Use of innovative or flexible lending practices
- Community development lending activities

Examiners weigh performance under the Lending Test more heavily than the Investment and Service Tests when arriving at an overall rating.

The Investment Test evaluates the institution's performance pursuant to the following criteria

- Number and dollar amount of qualified investments
- Innovativeness or complexity of qualified investments
- Responsiveness of qualified investments to credit and community development needs
- Degree to which the qualified investments are not routinely provided by private investors

Activities considered under the Lending or Service Test are not considered under the Investment Test.

The Service Test evaluates the institution's performance pursuant to the following criteria:

- Accessibility of delivery systems
- Changes in branch locations
- Reasonableness of business hours and services in meeting assessment area(s) needs
- Number of qualified community development services offered and used

### **Loan Products Reviewed**

The bank's major product lines, considering the bank's business strategy and the number and dollar volume of loans originated during the evaluation period, are home mortgage loans, small business loans, and consumer loans. A review of bank reports, records, financial reports, and previous evaluations indicate that the bank's loan distribution changed slightly since the previous evaluation. For the most recent quarter end at the last evaluation (December 31, 2013) Lakeland Bank had 33.0 percent of its overall lending in 1-4 family residential loans and 55.6

percent in commercial loans. As of December 31, 2016, the bank had 24.3 percent of its loan portfolio dedicated to 1-4 family residential loans and 60.2 percent in commercial loans. Also as of December 31, 2016, the distribution of consumer loans dropped from 1.2 percent to 0.6 percent since the last evaluation.

This evaluation considered Lakeland Bank’s home mortgage loans originated during 2015 and 2016, as well as the bank’s small business loans and consumer loans for the same period. While not required, the bank collected consumer loan data and requested that examiners consider it as part of this evaluation. The bank’s consumer loans consist of all non-HMDA reportable home equity loans, home equity lines of credit, and personal loans (secured and unsecured). Consumer loans represent a majority of the bank’s lending, by number, and home mortgage loans represent a majority of the bank’s lending, by dollar volume. However, home mortgage loans, small business loans, and consumer loans each account for a significant portion of the bank’s total loans, by number and dollar volume. Therefore, examiners equally weighted each product within the Lending Test.

Farm loans only represent 0.1 percent of the bank’s loan portfolio. Therefore, examiners did not analyze small farm loans during this evaluation. Additionally, no other loan type represented a major product line or provided material support for conclusions or ratings; therefore, these loans are not included in this evaluation. The bank does not have any affiliates engaged in lending.

The following table shows the total numbers and dollar amounts for home mortgage, small business, and consumer loans that the bank originated and purchased during 2015 and 2016.

<b>Loan Products Originated</b>				
<b>Loan Category</b>	<b>2015</b>		<b>2016</b>	
	<b>#</b>	<b>\$(000s)</b>	<b>#</b>	<b>\$(000s)</b>
HMDA	447	209,200	598	411,779
Small Business	633	149,104	580	159,466
Consumer	776	73,351	812	85,584
<i>Source: HMDA and CRA LARs for 2015 and 2016.</i>				

For the Lending Test, examiners reviewed the number and dollar volume of home mortgage, small business, and consumer loan originations. While this evaluation presents number and dollar volume of loans, examiners emphasized performance by number of loans because the number of loans is a better indicator of the number of individuals served. The Lending Test also considered community development loans originated since the prior evaluation, as well as loans originated under the bank’s innovative and flexible lending programs.

For the Investment Test, bank management provided information on new qualified investments, grants, and donations as well as any remaining investments that were qualified during previous evaluations. The Service Test included retail and community development services provided since the last evaluation through April 3, 2017.

the assessment area credit needs, particularly in the area of affordable housing. The bank's 48 affordable housing loans supported 1,783 affordable rental units for low- and moderate- income individuals.

The bank's community development lending includes 44 loans totaling \$151.3 million that fall just outside of the assessment area. However, 39 of these loans totaling \$115.1 million fall in counties directly adjacent to the bank's assessment area. These entities serve the broader statewide area that includes the bank's assessment area. In addition, the five remaining community development loans totaling \$36.2 originated to entities in the immediate regional area. As the bank has been responsive to the community development needs of its assessment area, examiners considered these loans under the Community Development Test.

The following table illustrates the bank's community development lending activity by year and purpose.

Community Development Lending												
Activity Year	Affordable Housing		Community Services		Economic Development		Revitalize or Stabilize		Neighborhood Stabilization		Totals	
	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)	#	\$(000s)
2014	10	8,338	7	2,538	0	0	1	1,600	0	0	18	12,476
2015	12	37,326	11	16,013	0	0	3	16,200	0	0	26	69,539
2016	20	59,665	11	14,550	2	17,460	2	16,400	0	0	35	108,075
YTD 2017*	6	15,738	4	4,250	0	0	0	0	0	0	10	19,988
<b>Total</b>	<b>48</b>	<b>121,067</b>	<b>33</b>	<b>37,351</b>	<b>2</b>	<b>17,460</b>	<b>6</b>	<b>34,200</b>	<b>0</b>	<b>0</b>	<b>89</b>	<b>210,078</b>

*Source: Bank Records; \* 1/1/2017 – 4/3/2017*

For purposes of this evaluation, affordable rentals are those with rents that are equal to or lower than the Department of Housing and Urban Development's (HUD) Fair Market Rents for the MSA or county in which the property is located. These rental guidelines are available on HUD's website at [www.huduser.org/datasets](http://www.huduser.org/datasets).

Examples of the bank's community development loans during the review period include:

#### 2014

- The bank renewed a \$930,000 and a \$1.0 million loan to a non-profit corporation whose purpose is to ensure the safety, security, and protection of nursing home residents against all aspects of crime. The foundation uses the proceeds of loans from various banks to purchase government securities, splitting the yield between the bank and the foundation. The foundation then uses its proceeds to purchase personal safe deposit boxes for nursing home residents to secure their valuables. The foundation also operates a crime tip line along with other crime prevention programs. The bank subsequently renewed both loans in 2015 and 2016. In 2016, the bank originated two additional loans to this organization in the amounts of \$1.5 million and \$1.3 million.