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Community Reinvestment Act Performance Evaluation

**The New York Federal Branches of
Bank of China
Charter Numbers 80028 and 80091**

**410 Madison Avenue and 42-44 East Broadway
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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 **The New York Federal Branches of Bank of China**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 22, 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 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

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.

Assessment Area (AA) - A geographic area which consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area - A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank or federal branch has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank or federal branch that benefit areas outside of its assessment area.

Block Numbering Area (BNA) - Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301)) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a federal branch's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Limited Purpose Institution - An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market. A limited-purpose institution continues to meet the narrow product line requirement if it only infrequently provides other types of loans.

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income Family or Geography - An income level that is less than 50% of the MFI.

Moderate-Income Family or Geography - An income level that is at least 50% and less than 80% of the MFI.

Middle-Income Family or Geography - An income level that is at least 80% and less than 120% of the MFI.

Upper-Income Family or Geography - An income level that is 120% or more of the MFI.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income - As defined by the Consolidated Report of Condition and Income, income before adjusting for extraordinary items.

Pass Through Receivables - Outstanding receivables tied to all accounts issued or owned by the bank or federal branch. The bank or federal branch provides this information.

Tier 1 Capital - The total of common shareholders equity, perpetual preferred shareholders equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

Total Assets - Total bank assets as defined by the Consolidated Report of Condition and Income.

Total Income - From the Consolidated Report of Condition and Income -- Interest income plus noninterest income.

Scope of the Examination

The New York Branches' performance under the CRA, was evaluated considering community development (CD) activities from March 17, 1997 through November 22, 1999. The level and nature of qualified investments, community development lending, and community development services was reviewed. We reviewed the eligibility of all loans presented for consideration by the Midtown Branch. Due to the volume of small business loans submitted for consideration as community development loans by the Chinatown Branch, we reviewed a representative sample of loans and expanded our results to the balance of the portfolio. Additionally submitted for consideration were CD investments, grants and activities. At the prior examination dated March 17, 1997, the New York Federal Branches were rated Satisfactory.

Institution's CRA rating:

This institution is rated **Satisfactory**.

The major characteristics that support this rating are:

- The federal branches demonstrate an adequate level of community development lending, community development services, and qualified investment activities.
- The federal branches demonstrate an occasional use of innovative or complex qualified investments, community development loans, or community development services.
- The federal branches demonstrate an adequate responsiveness to credit and community development needs in its assessment area.

Description of Institution

The Bank of China is one of the four largest state-owned commercial banks in the People's Republic of China. It is a full service bank that ranks as the second largest bank in China, with total assets of \$338 billion as of December 31, 1998. The bank is headquartered in Beijing, China and has more than 15,000 offices and branches in China, and over 160 overseas branches, offices and subsidiaries in 19 countries and territories.

The Bank of China has two branches in the borough of Manhattan. The Midtown branch is located on Madison Avenue and 48th Street. The Chinatown branch is located on East Broadway in lower Manhattan. Both branches are FDIC insured. The Bank of China also has a limited branch in Los Angeles, California, which is not FDIC insured and is not subject to the CRA. The primary focus of the U. S. operations is to provide trade financing for import/export businesses operating between China and the U.S., as well as to fund project finance in both countries. Mortgage loans are made as an accommodation for commercial loan customers and for Bank of China employees. Retail loans are not offered. A full range of deposit services is offered. The NY branches were approved for a wholesale bank CRA designation effective November 1, 1996. The two branches had combined domestic total assets of \$1.3 billion and total domestic loans of

\$534 million, as of December 31, 1998. Total domestic deposits were \$434 million. These numbers exclude the International Banking Facility assets, loans and deposits. There are no legal impediments or other restrictions that would preclude the New York Federal Branches from meeting the Community Development needs of its assessment area.

Competition among financial institutions in Manhattan and the surrounding area is very keen, with a large number of multinational, regional and community banks vying for community development opportunities. Manhattan, particularly the midtown area, is the predominant financial center in the U.S. for foreign banks. However, most foreign bank branches are not FDIC insured and lending activity is primarily centered in commercial loans and loan syndications to larger multinational corporations. The Chinatown area has a large number of offices of Asian and Asian American owned financial institutions, as well as branches of other banks and thrifts.

The branches are good corporate citizens, especially in Chinatown and in the Chinese communities. It sponsors numerous civic events and donates to philanthropic causes.

Description of Assessment Area

Branch management has defined its assessment area for both the Midtown and Chinatown branches as Metropolitan Statistical Area (MSA) 5600, which encompasses most of the metropolitan area of New York, New York. The assessment area includes the five boroughs of New York City (NYC), and the counties of Putnam, Rockland, and Westchester. NYC includes the counties of New York (Manhattan), Bronx, Kings (Brooklyn), Queens, and Richmond (Staten Island). The population of the total assessment area is 8.5 million. The median family income is \$41,4767; 16% of the population have incomes below the poverty level. Owner occupied housing comprises 31% of total occupied housing units. The unemployment rate within the metropolitan area approximated 6.5% as of October 31, 1999. The delineation of this assessment area meets the requirements of the regulation.

The assessment area is mainly urban. There are some suburban and rural areas. Manhattan serves as a major employment center for the rest of NYC and the other counties in the assessment area, as well as Long Island, northern NJ and southern Connecticut. Employment in the community is primarily in services and light manufacturing, and includes the company headquarters for a number of national corporations. Primary industries in the community include finance, media, publishing, apparel, trade, legal, government, transportation, education, health care, tourism, food services, and retail. Businesses in the Chinatown area of Manhattan are concentrated in food services, the garment industry, and jewelry stores. The Midtown branch is located in a primarily commercial area, while the Chinatown branch is located in a mixed residential and commercial area, comprised primarily of rental units and small businesses.

Assessment area demographic information is as follows:

Table 1: Assessment Area Description

	Number	Low	Moderate	Middle	Upper	N/A
Tract	2,427	13%	17%	33%	34%	3%
Families	3,248,805	12%	19%	30%	39%	-
Small Business	232,724	7%	16%	25%	52%	

Source: Demographic Data - 1990 U.S. Census, Dun & Bradstreet Data

Our review of community contacts conducted in New York since the last performance evaluation disclosed a continuing need for low cost housing and small business lending. There continue to be a large number of community development loan, investment and service opportunities available in this MSA. While competition is strong, the branches have an advantage in the Asian communities and with borrowers of Asian descent.

Conclusions About Performance

Summary

Level of Activity

The level of community development activity is adequate. Community development lending increased from \$10 million at the last performance evaluation to \$26 million at this review. New Community Development Investments increased from \$ 1 million to \$8 million. The branches take advantage of many available CD opportunities, although with keen competition, the branches have the capacity to perform at higher levels, and management continually searches for additional opportunities.

Innovative or Complex Activities

The branches occasionally use innovative or complex community development activities. Most of the CD activities are mainstream. The Trade Finance and Y2K seminars offered by the Chinatown branch were creative and required significant preparation. Some of the Community Development Loans were also innovative. For example, the Chinatown branch increased a company's line of credit to enable the company to expand production and foster permanent employment. The branches also participate in several multi-bank pools that provide financing for small businesses.

Responsiveness to Identified Credit Community Development Needs

As noted earlier, the OCC's review of community contacts conducted in New York since the last

performance review disclosed a continuing need for low cost housing and small business lending in the MSA. Many of the branches' CD activities directly meet these needs. The branches have purchased mortgage-backed securities, facilitating low cost housing in low-income census tracts. Most of the loans either promote low- to moderate-income housing or assist small businesses in low- and moderate-income areas. The branch conducts extensive outreach throughout the year, constantly meeting with community leaders and groups to learn about CD needs and opportunities.

Consideration of Activities that Benefit Areas Outside of the Branches' Assessment Area

All of the Community Development investments, loans and services we considered at this performance evaluation benefited the branches' assessment area.

Qualified Investments

As illustrated by the table below, the New York Federal Branches have originated a reasonable amount of CD investments during the evaluation period.

Table 2: Qualified Investment Activity (000s)

	Benefits AA
Originated Investments	\$ 7,783
Originated Grants	\$ 145
Prior Period Investments	\$ 2,200
Totals	\$10,129

All investments and grants are within the Assessment Area. The originated investments noted above consist of 3 mortgage backed securities issues:

- \$4,823,000 - This is the branches' 75% share of a security that finances an 11 building project in a low-income area of Bronx County. Once rehabilitated, the vast majority of the units will be rented to low income tenants. This section of the Central Bronx needs low-income housing. This investment directly meets this credit need.
- \$ 733,000 - This represents the branches' 25% share in a Bronx County project in a low-income area. The vast majority of the units are rented to low and moderate income tenants. This investment is in the same area of the Bronx.
- \$2,226,000 - Located in a low-income section of upper Manhattan, the vast majority of this project is rented to low income individuals. The upper west side of Manhattan also needs low-income housing. This investment helps to meet this credit need. The branches have a 20% share in this project.

Prior period investments are centered in New York Mortgage Housing Finance Agency issues. These

investments are responsive to the credit needs of the MSA as determined by the OCC's outreach since the last CRA performance evaluation. While these investments are not considered innovative or complex, branch management has made significant efforts to locate and negotiate these deals.

Community Development Lending

The New York Federal Branches of Bank of China originated an adequate level of community development loans during the evaluation period. Community development loans are defined as loans that (1) have a primary purpose of community development, as defined at 12 CFR 25.12(h), (2) have not been reported or collected by the federal branch or an affiliate for consideration as home mortgage, small business, small farm or consumer loans, unless they are multifamily dwelling loans, and (3) benefit the branch's assessment area or a broader statewide or regional area that includes the branch's assessment area. The loan volume, by office, is as follows:

Table 3: Community Development Loan Activity

	Number	\$ (000)
Midtown Branch	12	\$14,891
Chinatown Branch	20	\$11,679
Totals	32	\$26,570

These loans respond directly to the credit needs of the community. Approximately half of the loans contribute to the economic revitalization of certain parts of the assessment area. One quarter respond to the affordable housing needs of the community, with the remaining 25% assisting in job creation. Most of these loans are mainstream products.

Examples of the community development loans originated during the evaluation period include:

- The Chinatown branch refinanced a mortgage for \$6.5 million on commercial property. The buildings are located in a commercial area adjacent to a low-income census tract in lower Manhattan. The owner rents to several minority owned small businesses. These businesses promoted economic development by creating permanent jobs for low- and moderate-income individuals.
- The Chinatown Branch provides a \$2.4 million line of credit to a meat packing plant located in a low-income census tract in Brooklyn. The plant falls under the definition of a small business. This line permitted the business to expand and hire additional employees both in the plant as packers and on the road as truck drivers. The vast majority of new employees were low- and moderate-income individuals. This was an innovative use of a revolving line of credit to foster employment. Revolving lines of credit, which are usually for working capital purposes, do not ordinarily result in business expansion.
- In 1997, the Midtown Branch provided \$2.7 million in second mortgages on two adjacent

properties in a moderate-income census tract of the Bronx. These are mixed use buildings with small businesses on the first floor and low- and moderate-income housing on the upper floors.

Community Development Services

Community development and retail banking services are adequate. Outreach services are focused on providing financial assistance for commercial loan customers.

The Chinatown branch held several customer seminars during the evaluation period. These seminars are targeted to area small business owners and prospective first time home buyers. Topics included SBA Lending (co-sponsored by the SBA), trade finance and letters of credit, Y2K issues and, Buying a Home. While home buying and SBA seminars are common, branch sponsored customer seminars on the other topics offered are unique. The branches refer potential SBA loan customers to the Pace University Small Business Development Center, which assists the customers in preparing business plans, loan proposals, and financial statements. The branch then works with the applicants to secure SBA financing.

Compliance with Anti-Discrimination Laws and Regulations

The New York Federal Branches' compliance with fair lending laws and regulations was reviewed during an examination in the first half of 1999. Since the branches conduct consumer lending on an accommodation basis to commercial customers and branch employees only, the scope was limited to those few consumer loans made. The branches' Fair Lending practices, policies and procedures were also examined to ensure routine and consistent compliance. No violations of the substantive provisions of the anti-discrimination laws and regulations were found.