



PUBLIC DISCLOSURE

September 22, 2014

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Modern Bank, N.A.
Charter Number 16629

250 West 55th Street, 15th Floor
New York, NY 10019

Office of the Comptroller of the Currency

343 Thornall Street
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NOTE: 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.

INSTITUTION'S CRA RATING:

This institution is rated Satisfactory.

The conclusions for the three rating criteria are:

- The bank demonstrates adequate level of community development activity in its assessment areas.
- The bank demonstrates no use of innovative or complex qualified investments, community development loans, or community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment areas.

Scope of the Examination

In evaluating the bank's performance under the Community Reinvestment Act (CRA), we reviewed community development activities from December 21, 2010 through September 22, 2014. Modern Bank, NA is designated a wholesale bank and, as a result of this designation, we reviewed the level and nature of qualified investments, community development lending, and community development services presented for consideration. All of the bank's activities reviewed during this evaluation were within, or directly benefited, the defined assessment areas. At the prior examination, dated December 21, 2010, the bank's CRA Rating was Satisfactory.

Description of Institution

Modern Bank, NA (Modern) is a wholesale bank, headquartered in New York, NY, with reported total assets of \$731 million as of June 30, 2014. The bank, along with several affiliates, is owned by, and part of, a multi-tiered holding company structure. In 2011, Modern changed the primarily private banking focused business model and shifted to a wholesale banking model. The bank no longer offers retail loan products and primarily originates Commercial Real Estate (CRE) and Commercial and Industrial (C&I) loans to businesses. On November 2011, the OCC designated Modern as a wholesale bank. An institution so designated is evaluated pursuant to the community development test, which assesses a bank's record of meeting Assessment Area (AA) credit needs through CD lending, qualified investments, or CD services, as applicable.

As of June 30, 2014, Modern reported total assets of \$731 million. The loan portfolio and investment portfolio comprise 57% and 40% of total assets, respectively, with non-earning assets accounting for the remaining 3%. The loan portfolio is comprised of 1-4 family real estate loans (12%), commercial real estate loans (28%), and commercial and industrial loans (60%). Net Tier One Capital is \$63 million. The bank offers traditional

deposit products to both business and private banking clients, including demand deposits, money market deposits, time deposits, and savings accounts. The bank also utilizes listing service deposits and minimal brokered deposits.

Table 1: Financial Information (000s)

	Year-end CY11	Year-end CY12	Year-end CY13	Most Recent Quarter-end 06/30/2014	Average for Evaluation Period
Tier 1 Capital	54,990	57,091	62,041	63,485	59,402
Total Income	15,571	16,583	19,918	20,402**	18,119
Net Operating Income	2,283	1,472	5,487	2,472**	2,929
Total Assets	614,311	638,015	678,478	730,807	665,403

Source: Consolidated Report of Condition and Income and bank reported data. **Annualized data reported.

The major credit needs in the AAs' community, including low- and moderate-income neighborhoods, is affordable housing. Large financial institutions, such as JP Morgan Chase, The Bank of New York Mellon, Bank of America, and Citibank, N.A., have an established presence in the AA and provide strong competition with the bank for community development activities.

Aside from restrictions imposed by Modern's wholesale designation, scope of operations and business strategy, there are no additional legal, financial, or other constraints impeding the bank's ability to help meet the credit needs in its AA.

Description of Assessment Area

Modern Bank is located in the urban area of midtown Manhattan, New York, NY. As of June 30, 2014, the bank reported total assets of \$731 million. The Federal Deposit Insurance Corporation (FDIC) releases an annual *Summary of Deposit* report for all insured institutions. Based on the most recent release as of June 30, 2014, total deposits were \$591 million, placing Modern at 42nd among 97 banks, or 0.5% of deposit market share within the bank's AA of New York and Kings Counties. JP Morgan Chase is top ranked with 237 offices and commands 44% of deposit market share within the bank's AA, followed by The Bank of New York Mellon with one office and 14% market share, and HSBC with 69 offices and 7% market share within the bank's AA.

Modern has designated the New York-Jersey City-White Plains, NY-NJ Metropolitan Division (MD) No. 35614 as its AA. The assessment area consists of all of Kings and New York Counties. The AA consists of 1,049 census tracts. Within the geography, 169 tracts or 16.11% are low income; 356 or 33.94% are moderate income; 238 or 22.69% are middle income; and 261 or 24.88% are in upper income tracts. There are also 25 tracts or 2.38% listed as unknown by the US Census Bureau. Total population within the assessment is 6,321,295. The weighted average median family income is \$71,405. The AA consists of 881,492 families of which 497,307 or 56.41% are low-to-moderate income families.

Table 2: Assessment Area Description

	Number	Low	Moderate	Middle	Upper
Tracts	1,049	16.11%	33.94%	22.69%	24.88%
Families	881,492	19.92%*	36.49%*	18.45%*	25.13%*
Businesses	419,329	8.08%**	19.58%**	14.77%**	52.86%**

Source: Demographic Data – 2000 or 2010 U.S. Census, Dun & Bradstreet Data. *Represents families by income level. **Represents businesses by income level of census tract. *Figures do not add to 100% due to tracts listed as unknown by the U.S. Census Bureau.*

According to the US Bureau of Labor Statistics, the August 2014 unemployment rate for the AA was 6.1%, which was the same as the national unemployment rate of 6.1%. Major employers in New York County include Metropolitan Transportation Authority, North-Shore Long Island Jewish Health System, New York City Health and Hospital Corp, JP Morgan Chase, Citigroup Inc., Wegmans Food Market Inc., University of Rochester, Cablevision Systems, and Mount Sinai. Top industry sectors are education and health services (20.1%); government (16.2%); professional and business services (13.5%); and retail trade (10.4%).

Homeownership is difficult for most low- and moderate-income individuals and families. The weighted average median family income was \$71,405, while the average median housing cost is \$619,324. The percentage of total housing with monthly owner cost resulting in greater than 30% of income is 9.15% within the New York AA. Due to the high costs, a 67% majority of households rent, compared to the 23% owner occupied units. The weighted average monthly gross rent is \$1,172, and 31% of monthly renter costs are greater than 30% of income. 10% of all housing units are reportedly vacant. Occupied Housing Units is the primary housing type in the AA, comprising 90% of total housing type, while multi-family units are the secondary housing type comprising 71% of total housing types within the New York AA.

Conclusions about Performance

Summary

Modern demonstrated an adequate level of CD performance through qualified investments, CD loans, and CD services. Although the investments and CD loans made were neither innovative nor complex, they demonstrated an adequate responsiveness to the credit and development needs of the community. The bank also conducted some CD services within the AA. The level of the bank's activity was adequate given its wholesale designation, scope of operations, and available opportunities.

The level of CD performance in relation to meeting community opportunities based on the bank's capacity is adequate. Modern's primary CD focus is providing affordable housing and meeting the community needs of low-and moderate-income individuals. Modern allocates a majority of its resources in CD investments to organizations that facilitate affordable housing needs. Affordable housing is the leading community need within the bank's New York AA. During the evaluation period, CD investments were comprised of 99% (\$3.2 million) in mortgage-backed securities that are supported by mortgages to low-to moderate-income individuals and families. The remaining 1% (\$43,000) of qualified investments were originated grants to local organizations that provided direct benefits to low-to moderate-income individuals and families. Modern originated eight CD loans during the evaluation period totaling \$16.8 million to borrowers focused on affordable housing. Management and Executive Officers partake in leadership roles of a nonprofit organization with the primary focus to provide educational and economic needs of low-and moderate-income children and young adults.

- Our review of qualified investments and CD lending did not reveal any use of innovative or complex CD activities.
- Modern adequately responds to the credit and CD needs within the New York AA. Through qualified investments, CD lending, and CD services, the bank is able to help meet the needs of low-to moderate-income individuals.

Qualified Investments

Total qualified investments of \$1.23 million were originated in the evaluation period with the continuing impact of \$1.9 million in outstanding prior period investments. Together with newly originated investments and outstanding prior investments, total qualified investments amounted to \$3.2 million. Qualified investments made by the bank directly benefited low-to moderate-income individuals within the New York AA. A large majority of investments, \$3.16 million (or 99%) were in mortgage-backed securities that benefited the bank's AA. Investments in mortgage-backed securities are supported by

mortgages to low-to moderate-income individuals and families. Below is a summary of the bank’s qualified investments:

- Modern purchased a \$1.2 million mortgage-backed security, during the evaluation period that is supported by mortgages to low-to moderate-income individuals and families within the New York AA.
- Approximately 2 qualified prior period investments totaling \$1.9 million in mortgage-backed securities remain outstanding.

Other qualified investments include grants and contributions for CD purposes. Approximately six originated grants, totaling \$42,000, benefited the New York AA in relation to the bank’s capacity and AA characteristics and needs. The bank supports organizations that provide direct benefits to low-to moderate-income individuals and families. Below are examples of the bank’s qualifying contributions:

- Modern made four contributions totaling \$31,000 to a nonprofit cultural arts center that offers education and literacy training to underserved communities in the bank’s AA. The program targets LMI youth and provides educational opportunities and transportation to and from the center. Modern’s large contributions are a key factor to the continuation of the program.
- Modern also made two contributions totaling \$11,000 to a nonprofit educational organization for youth development, which works to ensure that urban youth have the knowledge, skills, experiences and values they need to succeed in school, participate effectively in the democratic process, and achieve leadership in their communities and on the global stage. Participants of this nonprofit organization attend low performing schools and live in neighborhoods whose ethnic groups are largely under-represented academically, politically, and professionally.

Table 3b: Qualified Investment Activity (000s)

	Benefits New York AA**
Originated Investments	\$1,225
Originated Grants	\$ 42
Prior-Period Investments that Remain Outstanding	\$1,942
Total Qualified Investments	\$3,209

*** Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA.*

Table 4b: Qualified Investment Percentages

	Benefits New York AA (%)*
Total Investments/Average Tier 1 Capital	5%
Total Investments/Average Total Income	18%

* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital and income allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at www.fdic.gov

Community Development Lending

During the evaluation period, Modern originated eight qualifying CD loans amounting to \$16.7 million. All eight loans were new originations to borrowers dedicating a portion of the subject property to affordable housing for low-or moderate-income individuals and families. All CD loans provide benefit to low-and moderate-income individuals and families in the bank’s New York AA. A pro-rata share of lending qualifies for community development that provides affordable housing to low-or moderate-income individuals based on the percentage set aside for such purpose. Below are examples of CD loans originated during the evaluation period:

- Modern originated a \$413 thousand loan to purchase a multi-family apartment building in Brooklyn located in a low-to moderate-income geography and renting to low-to moderate-income individuals. All six rental units were dedicated to affordable housing.
- Modern originated a \$998 thousand CD loan to purchase a 16-unit residential property with 11 units dedicated to affordable housing. The property had pre-existing rent-controlled and rent-stabilized tenants. This building was located in a low-income census tract in the bank’s AA.

Table 5b: Community Development Lending Percentages

	Benefits New York AA (%)*
Total CD Lending/Average Tier 1 Capital	28%
Total CD Lending/Average Total Income	92%

* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA and benefit the AA or have the potential to benefit the AA. Calculations reflect capital, income, and receivables, if applicable, allocated by location of deposits as reported by the bank in its annual Summary of Deposits report, available at www.fdic.gov.

Community Development Services

Several members of the management team participated in leadership roles or events hosted by the nonprofit educational organization for youth development, which provides educational and economic benefits to low-and moderate-income individuals. The

services address the community needs of the AA as indicated by our discussion with community contacts and our review of community information. Examples of community development services are included below:

- Modern Bank staff held a Financial Literacy Workshop in 2013 and 2014 in partners with a community service organization that caters to LMI children and young adults. The focus on the workshop was to discuss the varying aspects of financial responsibility, including managing personal finances, investing money, and establishing a budget for long term financial security for underserved high school aged young adults.
- The Head of Commercial Real Estate serves as a Board Member on the Young Professionals Board, which is part of the community service organization that serves to educate LMI children and individuals in the bank’s AA.

Table 7: Community Development Service Activities

CD Service	Benefits AA
Community service organization that serves to educate LMI children and individuals in the bank’s AA /Modern Bank Financial Literacy Workshop 2013	X
Community service organization that serves to educate LMI children and individuals in the bank’s AA /Modern Bank Financial Literacy Workshop 2014	X
Community service organization that serves to educate LMI children and individuals in the bank’s AA /Board member of Young Professionals Board	X

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs. Modern’s retail lending activities are minimal due to its wholesale designation.

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 with 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 that consists generally of one or more MAs (using the MA 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 has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

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 10-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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or

- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the 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 delineated by the United States Bureau of the Census in the most recent decennial census.

LMI: Low and moderate income individuals.

Median Family Income (MFI): The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Area (MA): Refers to an MSA or a metropolitan division.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

Pass-Through Receivables: Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8.

Qualified Investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]

Wholesale Institution: An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.