



**NEW YORK STATE  
DEPARTMENT OF FINANCIAL SERVICES  
FINANCIAL FRAUDS AND CONSUMER PROTECTION DIVISION**

One State Street  
New York, NY 10004

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** December 31, 2014

**Institution:** Shinhan Bank America  
330 Fifth Avenue  
New York, NY 10017

**Note:** This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Department of Financial Services concerning the safety and soundness of this financial institution.

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## **GENERAL INFORMATION**

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of Shinhan Bank America (“SHBA”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2014.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Superintendent implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) Outstanding record of meeting community credit needs;
- (2) Satisfactory record of meeting community credit needs;
- (3) Needs to improve in meeting community credit needs; and
- (4) Substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary (“Evaluation”) be made available to the public. Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York Banking Law.

For an explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

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## **OVERVIEW OF INSTITUTION'S PERFORMANCE**

DFS evaluated SHBA according to the intermediate small bank performance criteria pursuant to General Regulations of the Superintendent ("GRS") Parts 76.7 and 76.12. The assessment period included calendar years 2012, 2013 and 2014. SHBA is rated "2," indicating a "Satisfactory" record of helping to meet community credit needs.

The rating is based on the following factors:

### **Lending Test:** "Satisfactory"

- **Loan-to-Deposit ("LTD") Ratio and Other Lending-Related Activities:** "Satisfactory"

During the evaluation period, SHBA's quarterly loan-to-deposit ("LTD") ratios were above 85%, except for the second quarter of 2013, and exceeded its peer group's ratios in all quarters. SHBA's average ratio of 89.4% was 13.8% above the average ratio of the peer group.

- **Assessment Area Concentration:** "Outstanding"

SHBA originated a total of \$66.2 million of HDMA-reportable and small business loans during the evaluation period. SHBA originated 99.4% by number, and 99.2% by dollar value of these loans within its assessment area. This substantial majority of total lending is an excellent record of lending by SHBA inside of the assessment area.

- **Distribution by Borrower Characteristics:** "Satisfactory"

Overall, the distribution of SHBA's loans demonstrated a reasonable dispersion of lending among borrowers of different income levels and businesses of different revenue sizes. SHBA's had a poor rate of HMDA-reportable lending to low- and moderate-income ("LMI") borrowers, but SHBA made a more than reasonable share of loans to small businesses (those with gross annual revenues less than or equal to \$1 million).

- **Geographic Distribution of Loans:** "Satisfactory"

The distribution of business loans based on census tract income levels demonstrated a reasonable rate of lending in LMI geographies, while HDMA-reportable lending in LMI census tracts was reasonable in terms of number but poor in the dollar value of loans.

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- **Action Taken in Response to Written Complaints with Respect to CRA:**

Neither SHBA nor DFS received any written CRA-related complaints since the prior CRA evaluation, as of December 31, 2011.

**Community Development Test (Loans, Investments, Services):** “Satisfactory”

SHBA’s community development performance demonstrated adequate responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering SHBA’s capacity and the need for and availability of such opportunities for community development in its assessment area.

- **Innovative or Complex Practices:**

SHBA did not engage in any innovative or flexible community development practices.

- **Responsiveness to Credit and Community Development Needs:**

SHBA demonstrated a reasonable level of responsiveness to credit and community development needs.

*This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York Banking Law and Part 76 of the General Regulations of the Superintendent.*

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## **PERFORMANCE CONTEXT**

### **Institution Profile**

Chartered in New York State in 1990, Shinhan Bank America (“SHBA”) is a commercial bank headquartered at 330 Fifth Avenue, New York, NY. Formerly known as Cho Hung Bank of New York, SHBA is a wholly-owned subsidiary of Shinhan Bank, a Korean banking corporation located in Seoul, South Korea, which in turn is wholly owned by Shinhan Financial Group.

Besides New York State, SHBA also operates branches in New Jersey, California, Georgia and Texas. Currently, it has 14 branches: five in New York, two in New Jersey, four in California, two in Georgia and one in Texas. Its main business activity is lending to small- and mid-sized retail and wholesale businesses that typically are Korean-American owned. SHBA’s niche is ethnic Korean communities in the New York metropolitan area, but the bank also serves the financial needs of other Asian Americans. SHBA participates in U.S. Small Business Administration (“SBA”) loan programs to help small business customers avail themselves of SBA-guaranteed loans.

Per the Consolidated Report of Condition (the “Call Report”) as of December 31, 2014 filed with the Federal Deposit Insurance Corporation (“FDIC”), SHBA reported total assets of \$965.9 million, of which \$819.6 million were net loans and lease finance receivables. It also reported total deposits of \$811.2 million, resulting in a LTD ratio of 101.0%. According to the latest available comparative deposit data as of June 30, 2014, SHBA had a market share of 0.02%, or \$269.8 million in a market of \$1.2 trillion, ranking it 91<sup>st</sup> among 145 deposit-taking institutions in the assessment area.

The following table is a summary of SHBA’s loan portfolio, based on Schedule RC-C of the bank’s December 31, 2012 – 2014 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>						
Loan Type	2012		2013		2014	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Residential Mortgage Loans	104,689	13.4	95,049	12.6	117,715	14.2
Commercial & Industrial Loans	180,356	23.2	183,151	24.4	225,125	27.1
Commercial Mortgage Loans	435,289	55.9	407,792	54.3	441,069	53.1
Loans to Depository Institutions	35,000	4.5	40,000	5.3	20,000	2.4
Multifamily Mortgages	7,142	0.9	5,441	0.7	9,225	1.1
Consumer Loans	6,605	0.8	4,201	0.6	3,281	0.4
Agricultural Loans	755	0.1	1,507	0.2	1,332	0.2
Construction Loans	7,842	1.0	13,980	1.9	13,033	1.6
Other Loans	1,164	0.1	566	0.1	12	0.0
<b>Total Gross Loans</b>	<b>778,842</b>	<b>100</b>	<b>751,687</b>	<b>100</b>	<b>830,792</b>	<b>100</b>

As illustrated in the above table, SHBA primarily focuses on commercial lending with 80.2% of its loan portfolio in commercial mortgages and commercial and industrial loans as of December 31, 2014.

SHBA maintains a total of 14 full-service branches and 16 automated teller machines ("ATM"s) throughout its assessment area nationwide.

SHBA has five branches in the bank's New York assessment area: four in Queens and one in Manhattan. One branch is located in a low income census tract. The others are in middle (2) and upper (2) income census tracts. All branches are open from 9:00 AM to 5:00 PM Monday through Friday. Three branches in Queens are open Saturday from 9:00 AM until 1:00 PM.

Supplementing the banking offices is an ATM network consisting of one machine at each of the five offices, except for Flushing, which has two machines.

SHBA's membership in the Allpoint ATM Network allows its customers surcharge-free access at Allpoint's 55,000 retail locations, (including CVS, 7-Eleven, Walgreens, and Target) to withdraw cash and view account balances.

*Examiners did not find evidence of financial or legal impediments that had an adverse impact on SHBA's ability to meet the credit needs of its community.*

### **Assessment Area**

SHBA's assessment area is comprised of Bronx, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk and Westchester counties.

There are 3,161 census tracts in the area, of which 363 are low-income, 773 are

moderate-income, 1,093 are middle-income, 853 are upper-income and 79 are tracts with no income indicated.

<b>Assessment Area Census Tracts by Income Level</b>							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Bronx	10	143	97	60	29	339	70.8
Kings	13	125	295	213	115	761	55.2
Nassau	8	9	26	157	84	284	12.3
New York	12	44	61	25	146	288	36.5
Orange	0	5	10	17	47	79	19.0
Putnam	0	0	0	12	7	19	0.0
Queens	26	21	169	314	139	669	28.4
Richmond	3	3	11	33	61	111	12.6
Rockland	0	4	6	10	45	65	15.4
Suffolk	1	4	70	197	51	323	22.9
Westchester	6	5	28	55	129	223	14.8
<b>Total</b>	<b>79</b>	<b>363</b>	<b>773</b>	<b>1,093</b>	<b>853</b>	<b>3,161</b>	<b>35.9</b>

The assessment area appears reasonable based upon the location of SHBA's offices and its lending patterns.

### **Demographic & Economic Data**

#### Population and Income

The assessment area had a population of 12,741,338 during the evaluation period. About 12.5% of the population were over the age of 65, and 19.9% were under the age of sixteen.

Of the 2,985,651 families in the assessment area, 26.3% were low-income, 16.8% moderate-income, 18.2% middle-income and 38.7% upper-income families. There were 4,588,009 households in the assessment area, of which 14.2% had income below the poverty level, and 3.2% were on public assistance.

The weighted average median family income in the assessment area was \$80,875.

#### Housing Characteristics

There were 5,019,303 housing units within the assessment area, of which 54.6% were one-to-four family units, and 45.0% were multifamily units.

Rental units represented 50.6% of the area's housing units; 48.0% were renter occupied and 43.4% were owner occupied. Of the 2,410,664 renter occupied housing units, 54.0% were in LMI census tracts; 24.5% were in middle-income census tracts, and 21.5% were in upper-income census tracts. The weighted average monthly rent



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was \$1,151.

Of the 2,177,345 owner-occupied housing units, 17.6% were in LMI census tracts while 82.4% were in middle- and upper-income census tracts. The median age of the housing stock was 66 years and the median home value in the assessment area was \$513,567.

### Business Demographics

There were 967,353 non-farm businesses in the assessment area. Of these, 73.1% were businesses with reported revenues of less than or equal to \$1 million, 5.6% reported revenues of more than \$1 million, and 20.9% did not report their revenues. Of all the businesses in the assessment area, 80.5% were businesses with less than fifty employees, and 93.1% operated from a single location. The largest industries in the area were services (45.6%), retail trade (14.3%), and finance, insurance & real estate (8.6%). Slightly more than 12% of businesses were not classified.

### New York State Department of Labor Unemployment Rates

According to the New York State Department of Labor, the average unemployment rate for New York State for the last three years was 7.5%. Bronx County had the highest average unemployment rate at 12.8% followed by Kings County with 10.0%. Nassau County's rate of 4.8% was the lowest.

The table below shows the unemployment rates during the evaluation period in the 11 counties comprising SHBA's New York assessment area.

Assessment Area Unemployment Rate												
Year	Statewide	Bronx	Kings	Nassau	NY	Orange	Queens	Putnam	Richmond	Rockland	Suffolk	Westchester
2012	8.5	12.8	10.0	7.0	7.8	7.9	8.4	7.1	8.7	7.2	7.6	7.2
2013	7.7	11.8	9.4	5.9	7.2	6.8	7.8	6.1	7.8	6.2	6.4	6.3
2014	6.3	9.8	7.7	4.8	6.0	5.5	6.4	4.9	7.2	5.1	5.3	5.1
Avg 3 yrs	7.5	11.5	9.0	5.9	7.0	6.7	7.5	6.0	7.9	6.2	6.4	6.2

### Community Information

Community contacts included a private nonprofit organization providing assistance to small businesses in Queens County and a community based organization providing a variety of community services to Korean and other Asian-American communities in New York City.

One community contact indicated the need for access to capital for small businesses, banking education for small businesses and individuals, and business counseling

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covering an array of topics relevant to business start-up and credit- and deposit-account processes. Most of their clients, including women and minority groups, have insufficient education or information on bank business products and services.

The other community contact indicated the need for free legal services for low-income households and victims of identity theft. The community contact also noted the unique needs of immigrants with limited English proficiency that happened to reside in rent stabilized units and who had been targeted by unscrupulous landlords looking to displace them for market rate tenants.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*DFS evaluated SHBA under the intermediate small bank performance standards in accordance with GRS Parts 76.7 and 76.12, which consist of the lending test and the community development test.*

*The lending test includes:*

- 1. LTD ratio and other lending-related activities;*
- 2. Assessment area concentration;*
- 3. Distribution of loans by borrower characteristics;*
- 4. Geographic distribution of loans; and*
- 5. Action taken in response to written complaints regarding CRA*

*The community development test includes:*

- 1. Community development lending;*
- 2. Community development investments;*
- 3. Community development services; and*
- 4. Responsiveness to community development needs*

*The following factors were also considered in assessing the bank's record of performance:*

- 1. Extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Evidence of practices intended to discourage credit applications;*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs*

DFS derived statistics employed in this evaluation from various sources. SHBA submitted bank-specific information both as part of the examination process and on its Call Report submitted to the FDIC. DFS obtained aggregate lending data from the Federal Financial Institutions Examination Council and deposit data from the FDIC. DFS calculated LTD ratios from information shown in the bank's Uniform Bank Performance Report submitted to the FDIC.

DFS derived the demographic data referred to in this report from the 2010 U.S. Census and the U.S. Department of Housing and Urban Development ("HUD"). DFS based business data on Dun & Bradstreet reports, which Dun and Bradstreet updates annually. DFS obtained unemployment data from the New York State Department of Labor.

The assessment period included calendar years 2012, 2013 and 2014.

Examiners considered SHBA's small business and HMDA-reportable lending in evaluating factors (2), (3) and (4) of the lending test noted above.

Banks, including SHBA, are not required to report small business data, and thus SHBA's small business data are not included in the aggregate data. Small business aggregate data are shown only for comparative purposes. SHBA is primarily a commercial lender, and SHBA's small business loans constituted a majority (68.3% by dollar value) of loans originated inside the assessment area.

DFS assigned SHBA a rating of "2," reflecting a "Satisfactory" record of helping to meet community credit needs at its **prior** Performance Evaluation conducted by DFS as of December 31, 2011.

**Current CRA Rating: "Satisfactory"**

**Lending Test:** "Satisfactory"

SHBA's small business and HMDA-reportable activities were reasonable in light of aggregate and peer group activity and demographics.

**LTD Ratio and Other Lending-Related Activities:** "Satisfactory"

SHBA's average LTD ratio was reasonable considering its size, business strategy, financial condition, and peer group's activity.

SHBA's LTD ratios during the three year evaluation period were greater than 80%, and in all instances exceeded the peer ratios.<sup>1</sup> The average ratio of 89.4% was 13.8% greater than the peer group's average ratio.

The following table shows SHBA's LTD ratios in comparison with the peer group's ratios for the twelve quarters since the prior evaluation.

<b>Loan-to-Deposit Ratios</b>													
	2012 Q1	2012 Q2	2012 Q3	2012 Q4	2013 Q1	2013 Q2	2013 Q3	2013 Q4	2014 Q1	2014 Q2	2014 Q3	2014 Q4	Avg.
Bank	86.7	90.2	88.4	89.1	85.1	82.7	85.0	87.7	87.3	93.3	96.9	101.0	89.4
Peer	73.3	74.3	74.5	74.2	73.2	74.9	75.1	75.8	75.7	78.4	79.0	78.3	75.6

**Assessment Area Concentration:** "Outstanding"

SHBA originated \$66.3 million of HDMA-reportable and small business loans during the evaluation period. SHBA originated 99.4% by number and 99.2% by dollar value of those loans within the assessment area, demonstrating an excellent concentration of lending in the assessment area.

<sup>1</sup> Peer group 3 – Insured commercial banks having assets between \$300 million and \$1 billion.

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HMDA-Reportable Loans:

HMDA-reportable loans represented 31.7% of total loans by dollar value made inside the assessment area. SHBA originated 100% by number and 100% by dollar value of its HMDA-reportable loans within the assessment area, demonstrating an excellent concentration of lending in the assessment area.

Small Business Loans:

Small business loans made up 68.3% of the total loans by dollar value SHBA made inside the assessment area. SHBA originated 99.3% by number and 98.8% by dollar value of those loans within the assessment area, demonstrating an excellent concentration of lending inside the assessment area.

The following table shows the percentages of SHBA's HMDA-reportable and small business loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
HMDA-Reportable										
2012	9	100.0%	-	0.0%	9	5,328	100.0%	-	0.0%	5,328
2013	13	100.0%	-	0.0%	13	6,354	100.0%	-	0.0%	6,354
2014	19	100.0%	-	0.0%	19	9,334	100.0%	-	0.0%	9,334
Subtotal	41	100.0%	-	0.0%	41	21,016	100.0%	-	0.0%	21,016
Small Business										
2012	35	97.2%	1	2.8%	36	14,088	96.2%	550	3.8%	14,638
2013	58	100.0%	-	0.0%	58	20,600	100.0%	-	0.0%	20,600
2014	40	100.0%	-	0.0%	40	10,578	100.0%	-	0.0%	10,578
Subtotal	133	99.3%	1	0.7%	134	45,266	98.8%	550	1.2%	45,816
Grand Total	174	99.4%	1	0.6%	175	66,282	99.2%	550	0.8%	66,832

Distribution by Borrower Characteristics: "Satisfactory"

The distribution of SHBA's small business loans by borrower characteristics demonstrated a reasonable rate of lending to businesses with gross annual revenues equal to or less than \$1 million. The distribution of SHBA's HMDA-reportable (1-4 family) lending to borrowers of different income levels, however, showed a poor rate of lending to LMI borrowers.

HMDA-Reportable Loans:

SHBA's HMDA-reportable (1-4 family) loans to LMI borrowers demonstrated a poor rate of lending to LMI borrowers.

SHBA did not originate any loans to low-income borrowers and originated only two loans to moderate-income borrowers during the three-year evaluation period.

The following table provides a summary of the distribution of SHBA's HMDA-reportable lending by borrower income.

<b>Distribution of HMDA-Reportable 1 to 4 Family Lending by Borrower Income</b>									
<b>2012</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	5,054	3.4%	813,801	1.5%	25.1%
Moderate	0	0.0%	0	0.0%	17,287	11.8%	3,408,059	6.2%	16.6%
LMI	0	0.0%	0	0.0%	22,341	15.2%	4,221,860	7.6%	41.7%
Middle	0	0.0%	0	0.0%	31,949	21.8%	7,969,107	14.4%	18.2%
Upper	8	88.9%	4,872	91.4%	86,029	58.7%	39,352,809	71.3%	40.1%
Unknown	1	11.1%	456	8.6%	6,340	4.3%	3,646,103	6.6%	
<b>Total</b>	<b>9</b>	<b>100.0%</b>	<b>5,328</b>	<b>100.0%</b>	<b>146,659</b>	<b>100.0%</b>	<b>55,189,879</b>	<b>100.0%</b>	<b>100.0%</b>
<b>2013</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	4,718	3.3%	790,151	1.4%	25.1%
Moderate	2	16.7%	699	11.5%	16,356	11.6%	3,202,573	5.8%	16.6%
LMI	2	16.7%	699	11.5%	21,074	14.9%	3,992,724	7.2%	41.7%
Middle	2	16.7%	218	3.6%	30,080	21.3%	7,514,657	13.6%	18.2%
Upper	4	33.3%	2,040	33.4%	83,868	59.5%	39,877,009	72.4%	40.1%
Unknown	4	33.3%	3,147	51.6%	5,960	4.2%	3,729,451	6.8%	
<b>Total</b>	<b>12</b>	<b>100.0%</b>	<b>6,104</b>	<b>100.0%</b>	<b>140,982</b>	<b>100.0%</b>	<b>55,113,841</b>	<b>100.0%</b>	<b>100.0%</b>
<b>2014</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Fam.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	3,562	3.6%	643,056	1.5%	26.3%
Moderate	0	0.0%	0	0.0%	12,128	12.3%	2,452,196	5.8%	16.8%
LMI	0	0.0%	0	0.0%	15,690	16.0%	3,095,252	7.4%	43.1%
Middle	3	17.6%	718	8.3%	21,293	21.7%	5,561,644	13.3%	18.2%
Upper	11	64.7%	6,987	81.1%	57,865	58.9%	30,123,873	71.8%	38.7%
Unknown	3	17.6%	915	10.6%	3,430	3.5%	3,185,623	7.6%	
<b>Total</b>	<b>17</b>	<b>100.0%</b>	<b>8,620</b>	<b>100.0%</b>	<b>98,278</b>	<b>100.0%</b>	<b>41,966,392</b>	<b>100.0%</b>	
<b>GRAND TOTAL</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Low	0	0.0%	0	0.0%		3.5%		1.5%	
Moderate	2	5.3%	699	3.5%		11.9%		6.0%	
LMI	2	5.3%	699	3.5%		15.3%		7.4%	
Middle	5	13.2%	936	4.7%		21.6%		13.8%	
Upper	23	60.5%	13,899	69.3%		59.0%		71.8%	
Unknown	8	21.1%	4,518	22.5%		4.1%		6.9%	
<b>Total</b>	<b>38</b>		<b>20,052</b>						

Small Business Loans:

The distribution of small business loans based on the revenue size of the business demonstrated a reasonable level of lending to businesses with revenues of less than or equal to \$1 million.

SHBA originated 63.2% by number and 51.7% by dollar value of business loans to businesses with gross annual revenues of less than or equal to \$1 million. In every year during the evaluation period, the rate of lending to small businesses outperformed the aggregate levels, in both number of loans and dollar value, but both SHBA's and the aggregate's rates underperformed the demographic income levels of the areas where businesses were located.

The following table provides a summary of SHBA's small business lending distribution during the evaluation period based on revenue size.

<b>Distribution of Business Lending by Revenue Size of Business</b>									
<b>2012</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Rev. < = \$1MM	22	62.9%	7,551	53.6%	115,069	39.0%	2,333,694	29.0%	72.5%
Rev. > \$1MM	13	37.1%	6,537	46.4%					4.8%
Rev. Unknown		0.0%		0.0%					22.7%
<b>Total</b>	<b>35</b>		<b>14,088</b>		<b>294,859</b>		<b>8,045,650</b>		
<b>2013</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Rev. < = \$1MM	33	56.9%	10,208	49.6%	117,488	44.0%	2,678,129	31.5%	73.6%
Rev. > \$1MM	25	43.1%	10,392	50.4%					5.2%
Rev. Unknown		0.0%		0.0%					21.2%
<b>Total</b>	<b>58</b>		<b>20,600</b>		<b>266,999</b>		<b>8,490,904</b>		
<b>2014</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Rev. < = \$1MM	29	72.5%	5,632	53.2%	128,010	41.6%	2,655,938	29.7%	73.3%
Rev. > \$1MM	11	27.5%	4,947	46.8%					5.6%
Rev. Unknown		0.0%		0.0%					21.2%
<b>Total</b>	<b>40</b>		<b>10,579</b>		<b>307,872</b>		<b>8,930,898</b>		
<b>GRAND TOTAL</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. < = \$1MM	84	63.2%	23,391	51.7%		41.5%		30.1%	
Rev. > \$1MM	49	36.8%	21,876	48.3%					
Rev. Unknown	-	0.0%	-	0.0%					
<b>Total</b>	<b>133</b>		<b>45,267</b>						

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Geographic Distribution of Loans: “Satisfactory”

The distribution of SHBA’s small business loans based on the income level of the census tracts where the businesses were located demonstrated reasonable levels of lending in LMI geographies, but SHBA’s HMDA-reportable lending in those census tracts was reasonable in number but poor in dollar value of total HMDA loans made.

HMDA-Reportable Loans:

The distribution of SHBA’s HMDA-reportable loans based on the income level of the geography demonstrated a less than reasonable rate of lending in LMI areas.

SHBA made two HMDA-reportable loans in a low-income census tract, outperforming the aggregate’s rates of lending in low-income areas of 2.4% by number and 1.2% by dollar value. The three loans SHBA originated in moderate-income census tracts, however, underperformed the aggregate’s rate of lending in moderate-income areas of 4.8% by number and 7.3% by dollar value. Overall, SHBA’s lending to LMI individuals underperformed the aggregate’s rates of lending of 2.5% by number and 6.1% by dollar value.

The following table provides a summary of the distribution of SHBA’s HMDA-reportable lending based on the income level of the geography.



<b>Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract</b>									
<b>2012</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	1	11.1%	100	1.9%	3,174	2.1%	1,843,638	2.9%	2.2%
Moderate	0	0.0%	0	0.0%	16,088	10.7%	6,543,462	10.2%	13.7%
LMI	1	11.1%	100	1.9%	19,262	12.9%	8,387,100	13.0%	15.8%
Middle	1	11.1%	340	6.4%	56,289	37.6%	18,911,221	29.4%	41.5%
Upper	7	77.8%	4,888	91.7%	74,000	49.4%	36,724,092	57.1%	42.7%
Unknown	0	0.0%	0	0.0%	253	0.2%	276,400	0.4%	
<b>Total</b>	<b>9</b>		<b>5,328</b>		<b>149,804</b>		<b>64,298,813</b>		
<b>2013</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	1	7.7%	952	15.0%	3,558	2.5%	2,227,935	3.4%	2.2%
Moderate	1	7.7%	488	7.7%	16,985	11.8%	7,589,187	11.6%	13.7%
LMI	2	15.4%	1,440	22.7%	20,543	14.2%	9,817,122	15.0%	15.8%
Middle	4	30.8%	1,398	22.0%	53,846	37.3%	18,676,259	28.6%	41.5%
Upper	7	53.8%	3,516	55.3%	69,704	48.3%	36,664,167	56.1%	42.7%
Unknown	0	0.0%	0	0.0%	130	0.1%	151,595	0.2%	
<b>Total</b>	<b>13</b>		<b>6,354</b>		<b>144,223</b>		<b>65,309,143</b>		
<b>2014</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				<b>OO Hus</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	0	0.0%	0	0.0%	3,203	3.2%	2,868,662	5.4%	2.5%
Moderate	2	10.5%	518	5.5%	14,888	14.7%	7,993,901	15.1%	15.1%
LMI	2	10.5%	518	5.5%	18,091	17.9%	10,862,563	20.5%	17.6%
Middle	6	31.6%	1,750	18.7%	39,384	39.0%	15,066,556	28.4%	41.8%
Upper	11	57.9%	7,066	75.7%	43,517	43.1%	26,951,269	50.9%	40.6%
Unknown	0	0.0%	0	0.0%	81	0.1%	92,233	0.2%	
<b>Total</b>	<b>19</b>		<b>9,334</b>		<b>101,073</b>		<b>52,972,621</b>		
<b>GRAND TOTAL</b>									
<b>Borrower</b>	<b>Bank</b>				<b>Aggregate</b>				
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Low	2	4.9%	1,052	5.0%		2.5%		3.8%	
Moderate	3	7.3%	1,006	4.8%		12.1%		12.1%	
LMI	5	12.2%	2,058	9.8%		14.7%		15.9%	
Middle	11	26.8%	3,488	16.6%		37.8%		28.8%	
Upper	25	61.0%	15,470	73.6%		47.4%		55.0%	
Unknown	-	0.0%	-	0.0%		0.1%		0.3%	
<b>Total</b>	<b>41</b>		<b>21,016</b>						

***Small Business Loans:***

The distribution of small business loans based on the income level of the geography of the location of the business demonstrated a more than reasonable rate of lending in LMI census tracts.

SHBA's business loans made in LMI census tracts made up 29.3% by number and 22.4%

by dollar value of all business loans made, outperforming the aggregate's levels by 6.9% and 1.0%, respectively.

The following table provides a summary of the distribution of SHBA's business lending based on the income level of the geography.

<b>Distribution of Business Lending by Geographic Income of the Census Tract</b>									
<b>2012</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	8	22.9%	1,764	12.5%	15,882	5.4%	431,704	5.4%	6.3%
Moderate	5	14.3%	1,758	12.5%	43,375	14.7%	1,204,821	15.0%	17.4%
LMI	13	37.1%	3,522	25.0%	59,257	20.1%	1,636,525	20.3%	23.7%
Middle	11	31.4%	4,899	34.8%	93,351	31.7%	2,584,603	32.1%	32.7%
Upper	11	31.4%	5,667	40.2%	135,794	46.1%	3,547,337	44.1%	41.7%
Unknown	0	0.0%	0	0.0%	6,457	2.2%	277,185	3.4%	2.0%
<b>Total</b>	<b>35</b>		<b>14,088</b>		<b>294,859</b>		<b>8,045,650</b>		
<b>2013</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	7	12.1%	1,500	7.3%	16,636	6.2%	443,789	5.2%	6.2%
Moderate	6	10.3%	2,208	10.7%	40,836	15.3%	1,295,143	15.3%	17.3%
LMI	13	22.4%	3,708	18.0%	57,472	21.5%	1,738,932	20.5%	23.5%
Middle	21	36.2%	7,480	36.3%	84,935	31.8%	2,759,721	32.5%	32.4%
Upper	23	39.7%	8,712	42.3%	118,749	44.5%	3,699,454	43.6%	42.1%
Unknown	1	1.7%	700	3.4%	5,843	2.2%	292,797	3.4%	2.0%
<b>Total</b>	<b>58</b>		<b>20,600</b>		<b>266,999</b>		<b>8,490,904</b>		
<b>2014</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	7	17.5%	1,158	10.9%	23,936	7.8%	572,614	6.4%	7.1%
Moderate	6	15.0%	1,763	16.7%	54,515	17.7%	1,494,983	16.7%	18.5%
LMI	13	32.5%	2,921	27.6%	78,451	25.5%	2,067,597	23.2%	25.6%
Middle	13	32.5%	4,537	42.9%	96,444	31.3%	2,773,847	31.1%	31.9%
Upper	14	35.0%	3,120	29.5%	126,915	41.2%	3,803,153	42.6%	40.7%
Unknown	0	0.0%	0	0.0%	6,062	2.0%	286,301	3.2%	1.9%
<b>Total</b>	<b>40</b>		<b>10,578</b>		<b>307,872</b>		<b>8,930,898</b>		
<b>GRAND TOTAL</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Low	22	16.5%	4,422	9.8%		6.5%		5.7%	
Moderate	17	12.8%	5,729	12.7%		16.0%		15.7%	
LMI	39	29.3%	10,151	22.4%		22.4%		21.4%	
Middle	45	33.8%	16,916	37.4%		31.6%		31.9%	
Upper	48	36.1%	17,499	38.7%		43.9%		43.4%	
Unknown	1	0.8%	700	1.5%		2.1%		3.4%	
<b>Total</b>	<b>133</b>		<b>45,266</b>						

**Action Taken In Response to Written Complaints with Respect to CRA: "Satisfactory"**

Since the prior CRA evaluation as of December 31 2011, neither SHBA nor DFS received any written complaints regarding SHBA's CRA performance.

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**Community Development Test:** “Satisfactory”

SHBA demonstrated reasonable responsiveness to the community development needs of its assessment area through community development loans, investments and services.

**Community Development Lending:** “Satisfactory”

During the evaluation period, SHBA originated \$3.3 million in new community development loans and had \$8.2 million outstanding from prior evaluation periods. Examiners considered this to be a reasonable level of community development lending over the course of the evaluation period.

<b>Community Development Loans</b>				
	<b>This Evaluation Period</b>		<b>Outstandings from Prior Evaluation Periods</b>	
<b>Purpose</b>	<b># of Loans</b>	<b>\$000</b>	<b># of Loans</b>	<b>\$000</b>
Affordable Housing				
Economic Development	1	2,000	3	7,623
Community Services				
Revitalize or Stabilize	1	1,300	1	600
<b>Total</b>	<b>2</b>	<b>3,300</b>	<b>4</b>	<b>8,223</b>

As an example, SHBA originated a \$1.3 million loan to finance the purchase of a commercial building located in a low-income census tract in Nassau County. Tenants of the building include small businesses offering services, including a grocery, barber shop, travel agency and a law office, that will help revitalize and stabilize this low-income census tract.

**Community Development Investments:** “Satisfactory”

During the evaluation period, SHBA invested \$219,425 in GNMA-issued mortgage backed securities and had \$2.3 million outstanding from prior evaluation periods. In addition, SHBA made a total of \$16,854 in community development grants.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Inv.	\$000	# of Inv.	\$000
CD Investments				
Affordable Housing	1	219	3	2,310
Economic Development				
Community Services				
Other (Please Specify)				
<b>Total</b>	<b>1</b>	<b>219</b>	<b>3</b>	<b>2,310</b>
CD Grants	# of Grants	\$000	Not Applicable	
Affordable Housing				
Economic Development				
Community Services	18	17		
Other (Please Specify)				
<b>Total</b>	<b>18</b>	<b>17</b>		

SHBA had \$2.5 million in MBS investments in residential properties located in SHBA's New York assessment area, which included \$2.3 million made in prior evaluation periods. The loans were made to LMI borrowers whose income was less than 80% of HUD's area median income.

SHBA contributed grants of \$16,854 that provided for a range of community services. Examples included a \$9,500 grant to a community foundation that provides a range of social services such as: free daily lunch programs for homebound seniors, free blood tests, and assistance in receiving Medicaid & Medicare; outreach and counseling services for youth in poor areas where poverty places children at particularly high risk; and \$1,100 to a nonprofit organization that provides "counseling, education and advocacy programs to prevent and end domestic violence and create a violence-free society."

Community Development Services: "Satisfactory"

SHBA's level of community development services is reasonable. For example:

- A board member was on the board of directors of a community foundation, committed to supporting community service programs that meet the most critical needs of Korean and Asian-American communities in New York, particularly focusing on underserved or marginalized groups, such as seniors, at-risk youth, women, immigrants and individuals with disabilities.
- SHBA's board chairman served as a pro bono financial advisor to a scholarship foundation and participated in a fundraising event for a charitable organization that mentors handicapped and economically disadvantaged children in upstate New York.
- A board member served as a volunteer tax and accounting advisor and participated in and contributed to the annual fundraising activities of a charitable

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organization that mentors handicapped and economically disadvantaged children in Westchester County.

Innovative or Complex Practices:

SHBA did not engage in any form of innovative or flexible community development practices.

Responsiveness to Community Development Needs:

SHBA demonstrated a reasonable level of responsiveness to credit and community development needs.

**Additional Factors**

**The extent of participation by the banking institution's Board of Directors or Board of Trustees in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the CRA.**

The board of directors conducts an annual review and approval of the CRA policy. The CRA officer provides the board with a self-assessment report of CRA activities semi-annually. SHBA has a CRA committee consisting of five senior officers—the chief executive officer/president, senior lending officer, treasury and compliance officers, and the CRA officer—who are tasked with monitoring SHBA's CRA activities.

**Discrimination and other illegal practices**

DFS examiners did not note evidence of practices by SHBA to discourage applications for the types of credit offered by SHBA.

DFS examiners did not note any evidence of prohibited discriminatory or other illegal practices.

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**Record of opening and closing offices and providing services at offices**

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Bronx						-	0%
Kings						-	0%
Queens		1		2	1	4	25%
Richmond						-	0%
New York					1	1	0%
Westchester						-	0%
Rockland						-	0%
Nassau						-	0%
Suffolk						-	0%
Orange						-	0%
Putnam						-	0%
<b>Total</b>	-	1	-	2	2	5	20%

SHBA operates five branches: four in Queens and one in Manhattan. No branches are located in any of the other nine counties in the bank’s assessment area. During the evaluation period, SHBA did not close or open any branches. All branches have one ATM each except the Flushing branch, situated in a low- income census tract, which has two ATMs.

SHBA offers the following products that support the banking needs of LMI individuals and small businesses:

- “Free checking” which provides unlimited deposits and withdrawals without a monthly service fee, a low minimum opening deposit \$100.00, and a minimum daily balance of \$0.01. This account comes with a VISA debit card which has real time fraud monitoring services to protect a cardholder from unauthorized transactions.
- “Free Business checking” which allows the first 100 debit transactions in a statement cycle to be service fee free; a low minimum opening deposit of \$500.00, appropriate for a startup small business; and no minimum balance requirement. This account comes with free online bill payment, and a VISA debit card with real time fraud monitoring services to protect the cardholder from unauthorized transactions.

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## Process Factors

- Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.

SHBA ascertains the credit needs of its assessment area through sponsorship of and participation in cultural and social events in Korean-American communities, meetings with local organizations, and involvement of its officers and staff in local community organizations.

- The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution.

SHBA's marketing efforts were in print media such as local newspapers and magazines, along with Internet advertising in English and Korean.

## **Other factors that in the judgment of the Superintendent bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community**

DFS noted no other factors.

## GLOSSARY

### Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

### Community Development

“Community development”:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

### Community Development Loan

A loan that has its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.



## **Community Development Service**

Service that has community development as its *primary purpose*, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
  - ❖ Serving on a loan review committee;
  - ❖ Developing loan application and underwriting standards;
  - ❖ Developing loan processing systems;
  - ❖ Developing secondary market vehicles or programs;
  - ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
  - ❖ Furnishing financial services training for staff and management;
  - ❖ Contributing accounting/bookkeeping services; and
  - ❖ Assisting in fund raising, including soliciting or arranging investments.

## **Geography**

A census tract delineated by the United States Bureau of the Census in the most recent decennial census

## **Home Mortgage Disclosure Act (“HMDA”)**

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

## **Income Level**

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

<b>Income level of individual or geography</b>	<b>% of the area median income</b>
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

## **Small Business Loan**

A small business loan is a loan less than or equal to \$1 million.

## **Low or Moderate Income ("LMI") Geographies**

Those census tracts or block numbering areas where, according to the 2000 U.S. Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

## **LMI Borrowers**

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In cases where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development ("HUD").

## **LMI Individuals/Persons**

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

### **LMI Penetration Rate**

A number that represents the percentage of a bank's total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

### **Low-Income Housing Tax Credit (LIHTC)**

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

### **New Markets Tax Credit (NMTC)**

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

### **Qualified Investment**

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;

- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.