



**NEW YORK STATE BANKING DEPARTMENT
CONSUMER SERVICES DIVISION**

One State Street
New York, NY 10004

PUBLIC SUMMARY

(Off-site Evaluation)

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2001

Institution: Habib American Bank
99 Madison Avenue
New York, NY 10016

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 Banking Department concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an off-site evaluation of the Community Reinvestment Act (“CRA”) performance of Habib American Bank (“HAB”) prepared by the New York State Banking Department. The evaluation represents the Banking Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of December 31, 2001.

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

Part 76 of the General Regulations of the Banking Board implements Section 28-b and further requires that the Banking 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 Banking 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 record of 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 be made available to the public (“Evaluation”). Evaluations are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 – 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

Habib American Bank is rated "2" indicating a satisfactory record of helping to meet community credit needs. This rating is based on the following:

- Although the overall loan to deposit ("LTD") ratio for the four consecutive quarters in 2001 was 58.7%, well below that of the bank's peer group, the ratio of loans to deposits booked and domiciled in New York branches was 76.7%. This is comparable with the national peer group's LTD ratio of 77.1%.
- Enhancing the availability of credit in its assessment area, the bank made qualified investments and grants totaling \$114.3 thousand.
- A substantial majority of the bank's loans were in the assessment area, reflecting outstanding performance. On an overall basis, 87.7% of the number and 88.7% of the dollar volume of small business loans were made within the assessment area.
- The geographic distribution of small business loans is poor. While reflecting reasonable dispersion based on census tract income, the dispersion of loans between the two partial counties included in the bank's assessment area is weak.
 - In 2000, 11.2% in number and 4.9% in dollar volume of small business loans were generated in LMI areas. The LMI percentages increased in 2001, to 14.3% in number and 7.5% in dollar volume.
 - For the years 2000 and 2001, the bank extended over 97% of its number and dollar amount of small business loans in the New York County portion of its assessment area, resulting in a poor penetration of the area surrounding its Queens branch.
- The penetration of loans among businesses of different sizes is reasonable based on the following two factors:
 - Approximately 22% of the number and 24% of the dollar volume of small business loans were extended to small businesses (with annual revenues of less than \$1 million) over the two-year evaluation period, representing barely adequate performance.
 - For the evaluation period, 85% of the number of loans was made with original principals of \$100 thousand or less.
- Neither the bank nor the New York State Banking Department has received any written complaints related to CRA matters.

This off-site Evaluation was conducted based on a review of the 12 assessment factors set

forth in Section 28-b of the New York State Banking Law and Part 76 of the General Regulations of the Banking Board.

PERFORMANCE CONTEXT

Institution's Profile:

Chartered as a commercial bank in 1983, Habib American Bank reported total assets of \$233.8 million on December 31, 2001. HAB is a member of the global Habib network of banks and financial institutions that serves customers at offices in Canada, Europe, Africa, the Middle East and South East Asia.

HAB operates two full-service banking offices within its assessment area in Manhattan and Queens and a branch in Los Angeles, making it a multi-state bank. Each office has deposit-taking ATM that are available 24-hours/7 days a week.

On December 31, 2001, HAB reported total loans of \$121.1 million and total deposits of \$210.2 million, resulting in a Loan-to-Deposit ("LTD") ratio of 57.6%. This percentage is significantly below its national peer group ratio of 77.4%. HAB's home county of Manhattan provided 45.6% of the bank's deposits on December 31, 2001.

The institution offers the following the following credit products:

- Commercial loans for working capital
- Residential and Commercial mortgage
- Business revolving lines of credit
- Asset based lending
- Acceptance financing
- Foreign bill discounted
- Foreign remittances
- SBA loans
- Letters of credit

TOTAL GROSS LOANS OUTSTANDING				
LOAN TYPE	12/31/2001		12/31/2000	
	\$000	%	\$000	%
Residential Mortgage Loans	23,632	19.0	18,640	14.8
Commercial Mortgage Loans	27,787	22.4	20,663	16.4
Mutifamily Mortgages	0	0.0	0	0.0
Commercial & Industrial Loans	62,378	50.2	63,095	50.2
Consumer Loans	6,773	5.5	8,328	6.6
Other Loans	3,625	2.9	14,931	11.9
Total Gross Loans	124,195	100.0	125,657	100.0

The bank specializes in financial institution services, international trade finance, asset-based lending, commercial and residential mortgages and consumer banking services. The bank is primarily a small business lender. HAB reported 50.2% of its loan portfolio in commercial and industrial loans, 22% in commercial mortgage loans, 19% in residential mortgage loans, 5.5% in consumer loans and 2.9% in other loans.

New York State Operations

Management reported that on December 31, 2000, loans in the New York State branches totaled \$71.4 million and deposits totaled \$88.3 million. On December 31, 2001, loans in the New York branches totaled \$73.5 million and deposits totaled \$95.9 million. The LTD ratios for the New York branches were 80.9% and 76.7%, respectively.

The bank participates in a loan program administered by the U.S. Small Business Administration ("SBA"), under which the SBA guarantees a portion of the total loan.

HAB received a rating of "2" at its last Performance Evaluation by the New York State Banking Department on January 1, 1999, reflecting a Satisfactory record of helping to meet community credit needs.

There are no legal or financial impediments, which would adversely impact the institution's ability to meet credit needs of its assessment area.

Assessment Area:

This evaluation is based solely on the CRA performance of the bank's New York State branches in the New York assessment area.

HAB's assessment area in New York State is comprised of parts of New York (Manhattan) and Queens Counties. Both counties are part of MSA 5600 (New York).

The assessment area consists of 149 census tracts, of which 43 (29.9%) are moderate-income tracts, 78 (52.5%) middle -, 25 (16.8%) upper- and three (2%) zero-income tracts. There are no low-income tracts in the assessment area.

Details of the assessment area follow:

Manhattan – The Manhattan portion of the assessment area is bordered by 49th/50th Streets on the north and to 26th/28th streets on the south, Third Avenue on the East Side and Eighth Avenue on the West Side. This area has 19 census tracts including five (26.3%) moderate-income tracts, one (5.3%) middle-income tract, 12 (63.1%) upper-income tracts and one (5.3%) zero-income tract.

Queens – The Queens portion of the assessment area is bordered in the north and east by Grand Central Parkway and Long Island Expressway, in the south by Queens Blvd. and on the west side by 21st Street. It includes the communities known as Astoria, Jackson Heights, Elmhurst, Corona, Woodside, and Flushing. This area has 130 census tracts including 38 (29.2%) moderate-income tracts, 77 (59.2%) middle-income tracts, 13 (10.0%) upper-income tracts and two (1.6%) zero-income tracts.

Based on 1990 census data, the assessment area total population was 530.8 thousand. Of the total, 84.8 thousand or 16.0% were under the age of 16 and 71.0 thousand or 13.4% were over 65.

There were 125.8 thousand families within the area of which 28.6 thousand (22.8%) were low income families, 23.9 thousand (19.0%) moderate, 27.2 thousand (21.6%) middle and 46.1 thousand (36.6%) upper income families. There were 214.9 thousand households in the area of which 26.8 thousand (12.5%) had income below the poverty level

There were 229.1 thousand housing units in the assessment area. Almost 30.9% (70.7 thousand) of the units were 1-4 family units and 67.0% (153.5 thousand) were multifamily units. About 23.6% (54.0 thousand) of the units were owner occupied and 70.7% (161.9 thousand) were rental occupied. There were 13.6 thousand (5.8%) vacant/boarded up units. In 1990, the median housing value was \$203.1 thousand and the median age of the housing was 42 years.

The HUD 2001 estimated median family income for the assessment area's MSA 5600 was \$59.1 thousand.

Based upon the location of the branches and the branches' lending patterns, the assessment areas appear to be reasonable. There is no evidence that LMI areas were arbitrarily excluded.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

HAB's performance for the years 2000 and 2001 was evaluated under the small bank performance criteria, which include the following: (1) Loan-to-Deposit Ratio and other Lending-Related Activities; (2) Proportion of Lending in the Assessment Area; (3) Geographic Distribution of Lending; (4) Distribution of Lending by Borrower Characteristics; and (5) Action Taken in Response to Written Complaints Regarding CRA. Based on optional information provided by the bank, HAB's qualified investments and services were considered, as well.

This evaluation focuses predominantly on HAB's origination of business loans, the bank's primary product.

The demographic data referred to in this report was obtained from the 1990 U.S. Census along with the updated HUD-estimated median family income.

- **Loan-to-Deposit Ratio and other Lending-Related Activities - "Satisfactory"**

The bank's Loan-to-Deposit ("LTD") ratio was reasonable given its size, financial condition and assessment area's credit needs.

HAB's average LTD ratio for the four consecutive quarters ending in December 31, 2001 was 58.7%, significantly lower than the peer group's ratio of 77.1%. This low LTD ratio was due to deposits of foreign banks, including the bank's IBF. However, as of year-end 2001, the ratio of loans to deposits booked and domiciled in the New York branches was 76.7%, a ratio comparable with that of the peer group.

Qualified Investments

Enhancing the availability of credit in its assessment area, HAB made the following qualified investments:

Community Capital Bank ("CCB") – HAB had a \$100 thousand Certificate of Deposit with CCB, a U.S Treasury- certified Community Development Financial Institution that provides business, housing and commercial loans for projects in distressed communities throughout New York City.

Grants - The bank made a grant of \$1.0 thousand to a nonprofit citywide community organization brings about neighborhood revitalization by stimulating reinvestment in urban neighborhoods through a partnership of residents, government and businesses.

The bank contributed \$14.3 thousand to the Affordable Housing Program sponsored by the Federal Home Loan Bank of New York ("FHLBNY") during this evaluation period. This contribution is the bank's pro rata share of the 10% of earnings set aside by the FHLBNY

to fund its Affordable Housing Program. HAB's pro rata share of this set aside was \$9.1 thousand for 2000 and \$5.2 thousand for 2001.

HAB also made grants to various funds involved in the World Trade Center relief efforts (see Other Factors, below, for more information concerning these grants).

- **Proportion of Lending Within Assessment Area – “Outstanding”**

A substantial majority of the bank's loans were extended within its assessment area.

In 2000, HAB originated 2,279 small business loans for \$131.8 million, of which 2,066 (90.7%) for \$120.7 million (91.6%) were made within the assessment area. In 2001, the bank generated 1,997 small business loans for \$125.0 million of which 1,689 (84.6%) for \$107.2 million (85.8%) were made within the assessment area, showing a slight decline.

- **Geographic Distribution of Lending – “Needs to Improve”**

The geographic distribution of loans reflects poor dispersion throughout the assessment area.

The bank's geographic distribution of loans based on census tract income is reasonable. In 2000, HAB made 232 small business loans (11.2%) for \$5.9 million (4.9%) in LMI tracts and 400 small business loans (19.4%) for \$20.8 million (17.2%) in the zero-income tract in New York County. In 2001, the bank originated 241 (14.3%) small business loans totaling \$8.1 million (7.5%) in LMI tracts and 286 (16.9%) totaling \$15.5 million in the zero-income tract in New York County.

As noted above, 29.9% of census tracts in the bank's assessment area are moderate-income and 2% are zero-income tracts.

In contrast, the dispersion of loans between the two partial counties served by the bank is poor. Specifically, in 2000, the bank made 2,007 small business loans (97.1%) for \$118.1 million (97.8%) in New York County, representing nearly all of the bank's originations. In 2001, 1,659 (98.2%) loans for \$106.0 million (98.9%) were made in New York County, reflecting an even higher percentage of total assessment area originations. The proportion of lending in New York County versus Queens County significantly increased from the roughly 75% share reported at the last evaluation. While the majority of business opportunities are located in New York County, it is noted that this portion of the assessment area has only 19 census tracts, representing only 12.8% of the bank's total assessment area. As noted above, the bank has one branch each in New York and Queens Counties, respectively.

- **Borrower Distribution of Lending – “Satisfactory”**

The bank's extension of small business loans reflects reasonable penetration among businesses of different sizes.

In 2000, the bank extended 472 (23.5%) small business loans totaling \$32.8 million (27.1%) to small businesses with revenues of \$1 million or less, reflecting barely adequate performance. Additionally, the bank advanced 1,781 (86.2%) small business loans with original principal amounts of up to \$100 thousand. Ten percent of the loans extended were with principals between \$100 thousand and \$250 thousand, and 3.8% were extended with original principals between \$250 thousand and \$1 million.

In 2001, the bank extended 353 (20.9%) small business loans totaling \$22.2 million (20.7%) to small businesses with revenues of \$1 million or less, showing a slight decline. Additionally, the bank advanced 1,420 (84.1%) loans with original principals up to \$100 thousand, 184 (10.9%) with principals between \$100 thousand and \$250 thousand, and 85 (5.0%) in amounts greater than \$250 thousand but less than \$1 million.

• **Action Taken In response to Written Complaints With Respect to CRA**

During the evaluation period there were no written complaints filed with either the bank or the New York State Banking Department concerning CRA matters.

• **Services**

None of the New York State branches are located in LMI census tracts but the Queens County branch is located in a non-LMI census tract that is adjacent to a LMI tract.

The branches are open between 9 AM and 3 PM from Mondays to Fridays. In addition, the Queens County (Jackson Heights) branch is open between 11 AM to 2 PM on Saturdays. As a special service, HAB has multilingual services in all of its branches in addition to notary services at no cost to customers.

No branches were closed in the last three years. The bank installed deposit-taking ATMs in all its branches during the last two years.

As part of a strategic initiative, over the last three years the bank introduced new products and services including added channels of delivery to enable customers of all income levels to gain wider access to essential banking services. These include the following:

- HAB eBanking Internet Banking
- HAB Access Debit Card
- Bank-by-mail
- Trade Finance Services for small businesses via computer terminal

- **Discrimination or Other Illegal Practices**

Any practices intended to discourage applications for types of credit set forth in the banking institution's CRA Public File.

There were no practices noted that were intended to discourage applications for the types of credit offered by the institution.

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance examination conducted concurrently with this evaluation indicates a satisfactory performance in terms of adherence to anti-discrimination or other applicable laws and regulations. No evidence of prohibited discriminatory or other illegal credit practices was noted.

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.

The bank has joined various community organizations including Chamber of Commerce, Neighborhood Housing Services of New York Inc., and the Asia Society. In addition, the bank makes contact with customers on a one-on-one basis through an active calling program. All branch managers and members of senior management are required to participate in the program to advise and assist in setting up small businesses. They also inform participants about the opportunities provided by the SBA and New York City assistance available for small minority business owners.

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.

HAB's marketing program includes advertising in ethnic newspapers and magazines such as *Gujarat Times*, *NY* and *The Minaret* which are available by subscription only and others which are distributed free of charge such as *Hauppauge Reporter*, *Pakistan Calling* and *Pakistan Express*. The bank also sponsors many ethnic events by advertising in individual brochures such as the Sadhu Vaswani Center USA, Federation of India Day Parade, National Day Celebration of Pakistan Inc. NY, Zee Gold Bollywood Awards and Aligarh Muslim University.

The extent of participation by the banking institution's board of directors in formulating the banking institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors has appointed a senior member of management as the CRA officer to monitor the bank's compliance of CRA, and the bank has a CRA Committee consisting of members of senior management. The minutes of the committee meetings are submitted to the board of directors for its review and information.

- **Other Factors**

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

As noted above, the bank also made grants totaling \$25.0 thousand in support of World Trade Center-related relief efforts to the World Trade Center Relief Fund, NY Firefighter 9/11 Fund and Victims and Family Relief Fund.

GLOSSARY

Aggregate

The cumulative lending by all HMDA-reporting lenders in the same geographic area under evaluation.

Community Development

The term “community development” is defined to mean:

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.

A “community development loan” is defined as a loan that has as 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.

A “qualified investment” is defined as a lawful investment, deposit, membership share or grant that has as its *primary purpose* community development. 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.

A "community development service" is defined as a service that has as its *primary purpose* community development, 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.

Demand-Adjusted Penetration Rate

The number of owner-occupied loans made by the institution (or aggregate as appropriate) in a geographic area per thousand owner-occupied housing units in that area. Mathematically, it is arrived at by dividing the number of owner-occupied housing units into the number of loans made and then multiplying by 1,000.

Demand-Adjusted Penetration Ratio

A ratio that depicts geographic penetration of loans by comparing demand-adjusted lending in LMI areas with non-LMI areas. Mathematically, it is arrived at by dividing the demand-adjusted penetration rate in non-LMI areas into the demand-adjusted penetration rate in LMI areas and then expressed as a percentage.

A ratio of 100% means that the institution (or aggregate as appropriate) made an equal number of loans proportionally in LMI and non-LMI areas. Less than 100 percent would indicate less lending in LMI areas on the same basis compared to non-LMI areas, whereas over 100 percent would indicate a greater level of lending in LMI areas versus non-LMI areas.

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.

Loans to Small Businesses

Small business loans to businesses with gross annual revenues of \$1 million or less.

Low or Moderate Income (“LMI”) Geographies

Those census tracts or block numbering areas (“BNAs”), where according to the 1990 US 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 the case 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

Those individuals, 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.

Small Business Loans

Loans to businesses with original amounts of \$1 million or less.