



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

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: December 31, 2001

Institution: Korea Exchange Bank
49 West 33rd Street
New York, NY 10001

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 evaluation of the Community Reinvestment Act (“CRA”) performance of Korea Exchange Bank (“KEB”) 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

KEB is rated "2", indicating a satisfactory record of helping to meet community credit needs. This rating is based on the following factors:

- *Loan-to-Deposit Ratio and Other Lending-Related Activities:* KEB's average loan-to-deposit ratio ("LTD") is reasonable given the bank's size, financial condition and assessment area credit needs. According to the Reports of Assets and Liabilities ("Call Reports") for the 11 quarters ending December 31, 2001, the branch's average LTD ratio was 71.6%, which compared favorably with the 62.2% average for the peer group.

Enhancing the availability of credit in its assessment area, the branch had a community development loan for \$1 million and two qualified investments totaling \$70 thousand as of December 31, 2001.

- *Assessment Area Lending:* A substantial majority of loans and other lending-related activities were concentrated in the assessment area. In 2000, the branch made 97.0% of the number and 97.1% of the dollar volume of small business loans within the assessment area. In 2001, KEB's assessment area concentration remained very high, at 97.2% and 99.1%, respectively.
- *Geographic Distribution of Lending:* The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. In 2000, KEB made 37.5% of the number and 37.1% of the dollar volume of its small business loans in low- and moderate-income ("LMI") areas within the assessment area. Notwithstanding a decline in its LMI penetration rates in 2001 to 31.4% and 28.7%, respectively, the branch continued to meet the standards for satisfactory performance.
- *Borrower and Loan Size Distribution:* The branch's lending distribution reflects excellent penetration among businesses of different sizes. In 2000, KEB made 78.1% of the number and 81.0% of the dollar volume of small business loans to businesses with gross annual revenues of \$1 million or less. In 2001, the ratios increased substantially, to 94.3% and 97.2%, respectively.
- *Complaints:* No CRA related complaints were filed during the evaluation period with either the bank or the New York State Banking Department.

This 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:

Korea Exchange Bank was established in 1967 as Foreign Exchange Bank of Korea by the Korean government to engage in foreign exchange and trade finance under the Korea Exchange Bank Act. The present name was acquired in 1968, and in 1989 KEB was converted into a corporation under the Commercial Code of the Republic of Korea after the Korea Exchange Bank Act was repealed. KEB operates two banking offices in New York County, including the main office at 460 Park Avenue ("Park Avenue") and a full service branch located at 49 West 33rd Street ("Broadway"). The Park Avenue branch is a non-Federal Deposit Insurance Corporation ("FDIC") insured wholesale bank. The Broadway branch is FDIC insured and, accordingly, is the sole subject of this evaluation.

The branch provides personal loans, business installment loans, commercial mortgage loans, import-export financing and commercial loans. KEB also provides retail-banking services mainly to the local Korean communities. The Broadway branch primarily provides trade financing to companies doing business in the United States of America, and the Republic of Korea.

The branch reported total assets of \$66.8 million as of December 31, 2001, consisting primarily of net loans and leases of \$47.3 million (70.8%) and cash and balances due from depository institutions of \$15.7 million (23.5%). The branch also reported total deposits of \$56.9 million, resulting in a LTD ratio of 83.1%, significantly above the 65.0% average for the peer group.

The institution offers a wide variety of lending products including personal loans, business installment loans, commercial mortgage loans, import-export financing and commercial loans.

The following table shows the branch's gross loan portfolio as of December 31, 2001 and 2000, according to the Report of Assets and Liabilities of U.S. Branches and Agencies of Foreign Banks:

| TOTAL GROSS LOANS OUTSTANDING | | | | |
|--------------------------------------|---------------|--------------|---------------|--------------|
| LOAN TYPE | 12/31/2001 | | 12/31/2000 | |
| | \$000's | % | \$000's | % |
| Residential Mortgage Loans | 22,475 | 47.5 | 15,382 | 41.1 |
| Commercial Mortgage Loans | 11,863 | 25.1 | 6,076 | 16.2 |
| Commercial Loans | 8,987 | 19.0 | 9,021 | 24.1 |
| Other Loans | 1,571 | 3.3 | 386 | 1.0 |
| Loans to foreign gov'ts | 2,457 | 5.2 | 6,541 | 17.5 |
| Total Gross Loans | 47,353 | 100.0 | 37,406 | 100.0 |

As illustrated in the chart above, on December 31, 2001 and 2000, 47.5% and 41.1%, respectively, of the branch's gross loan portfolio was comprised of residential mortgage loans. The data further show an increased concentration in commercial mortgages but a decreased concentration in commercial loans between the two years.

KEB received a rating of "2" at its last CRA evaluation by the Banking Department dated March 31, 1999, reflecting a "satisfactory" record of helping to meet community credit needs.

Assessment Area:

The branch's overall assessment area encompasses counties in the states of New Jersey, Connecticut and New York. The bank's New York assessment area includes the counties of the Bronx, Kings, New York, Queens, Richmond, Rockland and Westchester in Metropolitan Statistical Area ("MSA") 5600 (New York) and the counties of Nassau and Suffolk in MSA 5380(Nassau-Suffolk). The majority of the branch's credit customers is either domiciled or works in predominantly Korean neighborhoods, in and around the New York City area. During the exam, the bank agreed to downsize its assessment area for the next evaluation period, so that it could more effectively serve the credit needs of the community.

The area has 3,060 census tracts, of which 319 (10.4%) are low-income, 517 (16.9%) are moderate-income, 1,203 (39.3%) are middle-income and 941 (30.8%) are upper-income. In addition, the assessment area has 80 (2.6%) zero-income tracts.

According to the U.S. Census Bureau, in 1990, the bank's assessment area had a population of 11.1 million, of which 1.4 million (12.9%)¹ were over the age of 65 and 2.3 million (20.5%) were under the age of 16.

In 1990, there were 2.7 million families in the assessment area, of which 630 thousand (23.0%) were low-income families, 447.0 thousand (16.3%) moderate, 555.9 thousand (20.3%) middle and 1.1 million (40.4%) upper-income families. Of these 1.1 million LMI families, 513.5 thousand (47.7%) lived in the LMI tracts and these families accounted for 65.8% of all families (780.2 thousand) that lived in those tracts. There were 4.1 million households in the assessment area, of which 566.8 thousand (13.9%) had income below the poverty level.

There were 4.3 million housing units in the assessment area, of which 2.2 million (50.6%) were 1 to 4 family units and 2.1 (47.7%) were multifamily units. About 1.7 million (40.3%) of the housing units were owner occupied and 188.0 thousand (10.8%) of these were in the LMI tracts. A further 2.3 million (53.7%) were rental occupied units and 942.6 thousand

¹ While percentage figures are based on exact numbers, population and housing numbers cited above have been rounded to the nearest decimal point.

(40.4%) of these were in the LMI tracts. Almost 274.3 thousand (6.3%) of the housing units were vacant and/or boarded up. In 1990, the median housing value was \$197.2 thousand and the median age of the housing was 39 years.

According to a Dun and Bradstreet survey, in 2001 there were 478.0 thousand businesses in the assessment area, of which 394.9 thousand (82.6%) had revenues of \$1.0 million or less. About 55.2 thousand (11.6%) had revenues of more than \$1.0 million and 27.8 thousand (5.8%) were businesses on which no revenues were reported. Almost 435.5 thousand (91.1%) businesses in the assessment area had fewer than 50 employees and 405.4 thousand (84.8%) operated from a single location.

Almost 206.3 thousand (43.2%) firms were service providers, 95.9 thousand (20.1%) were in the retail trade, 49.1 thousand (10.3%) in finance, insurance & real estate, 37.3 thousand (7.8%) in wholesale trade, 33.4 thousand (7.0%) in construction and 26.5 thousand (5.6%) in manufacturing.

According to the New York State Department of Labor, MSA 5380's (Nassau-Suffolk) average unemployment rates were 2.9% in 2000 and 3.3% in 2001 while MSA 5600's (New York) were 5.3% in 2000 and 5.6% in 2001. MSA 5380's average unemployment rates were below the state's average rates of 4.6% in 2000 and 4.9% in 2001 while those of MSA 5600 were above the state's rates.

Based on the characteristics of the branch's customer base, the assessment area appears reasonable. There is no evidence that LMI areas are arbitrarily excluded.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

KEB'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, KEB's services were also considered.

This evaluation considers KEB's performance in the New York portion of its assessment area, only. The analysis of performance under factors 2,3 and 4, above, is based only on KEB's small business lending because the bank did not originate any residential mortgage loans during the evaluation period. It is noted that as a small bank, KEB is not required to collect government monitoring information in connection with its business loans. Accordingly, all loan data was obtained directly from the institution and a comparison to the aggregate of lenders was not performed. 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 Analysis and other Lending-Related Activities** - "Satisfactory"

KEB's average LTD ratio is reasonable given the bank's size, financial condition and assessment area credit needs. According to the FDIC Call Reports for the 11 quarters ending December 31, 2001, the branch's average LTD ratio was 71.6%, which compared favorably with 62.2% average for the peer group. For the quarter ending December 31, 2001 KEB's LTD ratio was 83.2%, which is significantly higher than 65.0% for the peer group.

While the LTD ratio has declined significantly since the prior evaluation (when the average LTD for the assessment period was 90.2%), it is noted that KEB's small business lending volumes for 2000 and 2001 were markedly higher than the levels reported at the prior evaluation.

Community Development Loans and Qualified Investments

Enhancing the availability of credit in its assessment area, the bank made a community development loan for \$1 million and qualified investments (including grants) totaling \$70 thousand. While reflecting a significant level of activity, the bank's community development lending declined markedly from the level reported at the last evaluation:

Neighborhood Housing Services of New York City, Inc. ("NHS") - On May 23, 2000 the branch granted a \$1 million revolving credit to NHS. NHS is a not-for-profit intermediary that creates and preserves affordable housing, and promotes increased investment in underserved and declining New York City neighborhoods through a broad range of lending, development/rehabilitation, and homebuyer education and counseling initiatives.

Community Capital Bank (“CCB”) - The branch has a \$50 thousand certificate of deposit that will mature on November 22, 2002 (to roll over continuously) with CCB, Brooklyn, New York. CCB is a community development commercial bank and a Certified Community Development Financial Institution (“CDFI”). CCB’s primary mission is to support the development of housing for low and moderate-income families, to promote job creation through small business lending, and to support businesses that provide beneficial products and services to the local community.

Grants - The branch committed to donate \$10 thousand to a New York City based community development organization annually for five years. As of the evaluation date, the bank had donated \$20 thousand to the organization.

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

A substantial majority of loans and other lending-related activities were in the assessment area. In 2000, the branch originated 33 small business loans for \$1.74 million, of which 32 (97.0%) for \$1.69 million (97.1%) were within the assessment area. In 2001, the branch originated 36 small business loans for \$2.14 million, of which 35 (97.2%) loans for \$2.12 million (99.1%) were extended within the assessment area.

- **Geographic Distribution of Lending** - “Satisfactory”

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area. In 2000, KEB originated 12 (37.5%) small business loans for \$625 thousand (37.1%) in LMI areas within the assessment area, 12 (37.5%) loans for \$680 thousand (40.4%) in middle-income areas and eight (25.0%) loans for \$380 thousand (22.5%) in upper-income areas. In 2001, the branch made 11 (31.4%) loans for \$610 thousand (28.7%) in LMI areas, 16 (45.7%) loans for \$1.1 million (50.5%) in middle-income areas and seven (20.0%) loans for \$390 thousand (18.4%) in upper-income areas. One loan (2.9%) for \$50 thousand (2.4%) was made in an area with no income data available.

As noted in the Performance Context, 27.3% of census tracts in the bank’s assessment area are deemed to be LMI, 39.3% are middle-income and 30.8% are upper-income tracts.

- **Borrower Distribution of Lending** - “Outstanding”

The branch’s lending reflects excellent penetration among businesses of different sizes. Of the 32 small business loans made within the assessment area in 2000, 25 (78.1%) loans for \$1.37 million (81.0%) were extended to businesses with gross annual revenues of \$1 million or less and seven (21.9%) loans for \$320 thousand (19.0%) were extended to businesses with revenues of more than \$1 million. In 2001, KEB made 33 (94.3%) loans for \$2.1 million (97.2%) to businesses with gross annual revenues of \$1 million or less and

two (5.7%) loans for \$60 thousand to businesses with gross revenues of more than a million.

As noted in the Performance Context above, in 2001 approximately 82.5% of businesses in the assessment area had revenues of \$1 million or less.

- **Action Taken In Response to Written Complaints With Respect to CRA**

For this evaluation period, no CRA- related complaints were filed with the branch or the New York State Banking Department.

- **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 report concurrent with this assessment indicates a satisfactory performance in terms of adherence to antidiscrimination or other applicable laws and regulations. No evidence of prohibited discriminatory or other illegal credit practices was noted.

- **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.

The branch's efforts to ascertain credit needs focus almost exclusively in the Korean community. Senior management remains involved with the New York Society of Korean Businessmen, which is comprised of wholesalers in the Korean business district on the west side of Manhattan. In addition, management continues to participate in meetings and programs organized by the New York State Banking Department, NHS and the New York City Housing Partnership. Moreover, the general manager and officers are expected to contact community groups and officials in an ongoing effort to ascertain community credit needs. Examples of these groups are the Korean-American Association of New York, the Korean Society and the Asian Society.

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.

Management relies on “word of mouth” within the Korean community to market the bank’s credit services. In addition, the branch places loan products advertisements in *The Korea Times* and *The Korea Central Daily News* and uses direct mailing. The branch also keeps brochures, in both Korean and English, listing the bank’s credit products in the branch’s lobby.

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

The Management Committee is directly involved with CRA-related activities, including approval of the branch’s CRA program and review of regulatory reports. The Compliance Officer is responsible for investment and funding proposals, which are submitted for approval to the Management Committee, and for updating the committee on CRA related issues.

- **Other Factors**

Other factors that in the judgement 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.

None noted.

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 nonmetropolitan 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 nonmetropolitan 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 nonmetropolitan 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.