



**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: June 30, 2002

Institution: Gotham Bank of New York
1412 Broadway
New York, NY 10018

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 “on-site” evaluation of the Community Reinvestment Act (“CRA”) performance of Gotham Bank of New York (“Gotham”) 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 June 30, 2002.

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 (“LMI”), 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

Gotham Bank of New York is rated "2", but the bank's performance reveals only a marginally satisfactory record of helping to meet community credit needs. The bank is advised to address these shortcomings in order to retain a satisfactory rating going forward. The assigned rating is based on the following:

- *Loan-to-Deposit Ratio and Other Lending-Related Activities:* Gotham's loan-to-deposit ("LTD") ratio is less than reasonable given the bank's size and financial condition. The bank's LTD, at 40.4% for the quarter ended June 30, 2002, is barely more than one-half of the corresponding peer group ratio, slightly below the bank's average for the current and prior five calendar quarters, and well below the LTD ratio reported at the prior evaluation. While performance in this category is somewhat enhanced by its community development loans and qualified investments totaling \$2.4 million, Gotham's LTD ratio needs to improve.
- *Assessment Area Concentration:* The bank originated a majority of its loans within the assessment area. Based on a sample of 150 loans totaling \$24.6 million, Gotham extended 93 loans totaling \$12.6 million within its assessment area, yielding an assessment area lending concentration of 65% by number of loans and 51% by dollar amount.
- *Geographic Distribution of Loans:* Gotham's geographic distribution of lending reflects poor dispersion throughout the assessment area. The preponderance of loans were made in upper income tracts by both number and dollar volume while only 9.28% by count and 3.36% by volume were made in LMI tracts. Viewed in light of the dispersion of small businesses in the assessment area as well as the institution's past performance, Gotham's performance in this category needs to improve.
- *Borrower's Profile:* The lending distribution based on borrower characteristics reflects marginally reasonable penetration among businesses of different sizes. Of 97 small business loans originated in the assessment area, only 30 (or 30.9%) were to businesses with gross annual revenues of \$1 million or less. These loans totaled \$2.170 million or 17.2% of all small business lending. The bank's performance in this category is relatively unchanged from the prior evaluation.
- The New York State Banking Department received no CRA-related complaints during the evaluation period.

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:

Chartered in 1980, Gotham Bank of New York is a \$166 million community commercial bank operating from a single office in midtown Manhattan. The bank primarily offers short-term secured and unsecured financing to small to medium sized businesses, primarily within the local community, and offers a range of deposit products. Lending activity is concentrated on manufacturers, wholesalers and importers in the garment, fur, carpet and jewelry industries. Gotham's products and services to the public are limited, in that it does not offer residential loans or consumer loans, nor does it offer ATM access.

As the below chart illustrates, the bank's gross loan portfolio is comprised largely of commercial loans and to a lesser extent, commercial mortgages. Combined, these two categories represent 93.4% of key lending categories as of the assessment date.

Gross Loans Outstanding				
Summary	06/30/02	%	12/31/01	%
Construction and Other Land	0	0.0%	0	0.0%
Farm R/E and production	0	0.0%	0	0.0%
1-4 Family Residential	4,060	6.6%	3,616	7.0%
Multi-Family	0	0.0%	0	0.0%
Commercial Mortgage Loans	11,727	19.2%	9,752	19.0%
Commercial & Industrial	45,304	74.2%	38,017	74.0%
Consumer Loans	0	0.0%	0	0.0%
Other Loans	0	0.0%	0	0.0%
Less: Unearned Income	23	0.0%	15	0.0%
Total	61,068	100.0%	51,370	100.0%

As of June 30, 2002, Gotham reported total assets of \$165.7 million, total deposits of \$145.4 million and total net loans of \$58.8 million resulting in a LTD ratio of 40.41%.

Gotham does not participate in governmentally insured, guaranteed or subsidized loan programs.

The bank received a rating of "2" at its last CRA Performance Evaluation by the Banking Department on December 31, 2000, reflecting a satisfactory record of meeting community credit needs.

There are no financial or legal impediments preventing the bank from meeting the credit needs of its assessment area.

Assessment Area:

Gotham’s assessment area has not changed since the previous evaluation. It encompasses approximately the lower two-thirds of Manhattan (New York County), bounded by 86th Street on the north, the Hudson and East Rivers to the west and east and Battery Park to the south.

There are 162 census tracts in the bank’s assessment area. The chart below highlights tract income characteristics and other assessment area demographics.

Assessment Area Demographics				
Total Population	780,131			
Tract Characteristics	Number	Percentage	Households	Percentage
Low Income	14	8.6%	19,119	4.5%
Moderate Income	25	15.4%	52,132	12.2%
Middle Income	18	11.1%	42,896	10.0%
Upper Income	100	61.7%	313,977	73.2%
N/A	5	3.1%	842	0.2%
Total	162	100.0%	428,966	100.0%
LMI Tracts	39	24.1%	71,251	16.6%

Business Demographics	2000		2001	
Number of Businesses	Count	% of Total	Count	% of Total
Low Income	3,881	3%	5,607	3%
Moderate Income	18,660	15%	30,387	16%
Middle Income	11,312	9%	14,854	8%
Upper Income	83,523	68%	127,737	68%
N/A	5,411	4%	8,239	4%
Total	122,787	100%	186,824	100%
LMI Businesses	22,541	18%	35,994	19%

According to the 1990 U.S. Census, the assessment area had a population of 780 thousand. The weighted average of MSA/Non-MSA’s Updated Median Family Income was \$59 thousand. Fourteen percent (14%) of the resident population is over the age of 65 and ten percent (10%) is under the age of 16. There are 429 thousand households in the assessment area, of which 11% (47,002) live below poverty level.

There are 476 thousand housing units in the bank’s assessment area, 2.9% and 95.7% of which are 1-4 family and multifamily units, respectively. Twenty percent (20%) of the housing units are owner-occupied and 10% of housing units are vacant. The average of median housing value is \$256 thousand.

The assessment area appears reasonable based upon the location of the bank’s office and its lending patterns. There is no evidence that LMI areas were arbitrarily excluded.

PERFORMANCE STANDARDS AND ASSESSMENT FACTORS

Gotham's performance was evaluated according to the small bank performance criteria, which include the following: (1) LTD Ratio and Other Lending-Related Activities; (2) Proportion of Lending in the Assessment Area; (3) Geographic Distribution of Lending; (4) Distribution of Lending According to Borrower Characteristics, and (5) Action Taken in Response to Written Complaints Regarding CRA.

This evaluation covered the period from January 1, 2001 – June 30, 2002 and focused primarily on small business loans, the bank's primary product.

Since, as a small bank, Gotham is not required to report government monitoring information on its small business loans, examiners based their analysis on a sample containing 150 loans totaling \$24.6 million.

- **Loan-to-Deposit Ratio and Other Lending-Related Activities: "Needs to Improve"**

Gotham's LTD ratio is less than reasonable given the bank's size and financial condition. While performance in this category is enhanced somewhat by Gotham's community development loans and qualified investments, the bank needs to improve its LTD ratio going forward.

At 40.4%, the bank's LTD ratio for the quarter ended June 30, 2002 is barely more than one-half of the corresponding peer ratio of 79.06%. This disparity remained a constant throughout the evaluation period. As shown below, the ratio on the evaluation date is slightly below the bank's average for the current and prior five calendar quarters:

Loan to Deposit Ratios	Bank	Peer
6/30/2002	40.40	79.06
3/31/2002	49.07	77.68
12/31/2001	36.84	77.45
9/30/2001	43.11	76.58
6/30/2001	38.99	76.49
3/31/2001	38.27	75.32
6-Quarter Average	41.11	77.10

The bank's six quarter average LTD ratio of 41.1% is also well below the average LTD of 49.0% reported at the prior evaluation (for the eight quarters ended December 31, 2000), which was also found to be less than reasonable.

Management states that the low LTD ratio is attributable primarily to Gotham's conservative underwriting standards and intense competition from other banks.

Community Development Loans: Enhancing credit availability in its assessment area, the

bank had community development commitment totaling \$2.3 million, with \$946 thousand outstanding as of this evaluation period. The details of the projects is as follows:

Academy Studio Assoc., LLC. - The bank originated a \$1 million, four-year term loan to Academy Studio. The loan, which originally matured on October 15, 1996, was extended to October 15, 2005. As of June 30, 2002, there was a \$335 thousand balance outstanding. Loan proceeds were disbursed against a mortgage on a building operating as a Single Room Occupancy (SRO) facility. Academy Studio has entered a triple net lease with Praxis Housing Initiative, a non-profit housing development corporation. Praxis, a nonprofit organization with a mission of providing safe and secure housing and supportive services for families in need, will manage this property as affordable housing for LMI families and single individuals with special needs such as those diagnosed with HIV/AIDS. Funding for this project is from grants through HUD. Praxis acts as developer, sponsor and operator of emergency housing projects for homeless and LMI families, especially those living with HIV/AIDS.

330 West 36 Street Hotel: The bank originated a \$1.1 million term loan, with \$889 thousand outstanding as of the evaluation date. The subject property is an 8-story elevator hotel that is leased to Praxis Housing Initiative, Inc. (see description above).

New York Business Development Corporation ("NYBDC"): The bank originated \$250 thousand line of credit, with \$23.8 thousand outstanding as of evaluation date. The NYBDC is a privately owned corporation funded by New York commercial and savings banks through lines of credit. Typically, NYBDC loans are priced at LIBOR and are utilized to provide a broad range of financing from small to mid-sized businesses located in the state of New York.

Qualified Investments: Further enhancing credit availability in the assessment area, the bank had a \$74 thousand, six month Certificate of Deposit with Community Capital Bank. CCB is a New York State chartered FDIC insured commercial bank specializing in affordable housing and small business lending initiatives in New York City.

- **Proportion of Lending Within Assessment Area: "Satisfactory"**

The bank originated a majority of its loans within the assessment area.

Of the sample of 150 loans totaling \$24.6 million, the bank extended 93 loans totaling \$12.6 million within its assessment area, yielding an assessment area concentration of 65% by number of loans and 51% by dollar amount. This ratio reflects marginally satisfactory performance, and is well below the 81.3% by number and 68.0% by dollar volume reported for the prior evaluation period.

- **Geographic Distribution of Lending : "Needs to Improve"**

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

The table below illustrates the bank’s distribution of loans originated within the assessment area. The overwhelming majority of loans were in upper income tracts, by both number and dollar volume. Only 9.3% by number and 3.4% by dollar volume were in LMI tracts and only 6.2% by number and 16.3% by dollar volume were extended in middle-income tracts.

Gotham Bank		Assessment Area Small Business Lending		
Tract Income Level	Count	% of Total	Amount	% of Total
Low	0	0.00%	\$ -	0.00%
Moderate	9	9.28%	\$ 425,374	3.36%
Middle	6	6.19%	\$ 2,056,000	16.26%
Upper	81	83.51%	\$ 9,916,219	78.40%
N/A	1	1.03%	\$ 250,000	1.98%
Total	97	100.00%	\$12,647,593	100.00%

The bank’s LMI tract penetration is viewed in light of the distribution of small businesses throughout the assessment area as well as the institution’s past performance. As noted in the Performance Context, 18-19% of small businesses are located in LMI tracts and 8-9% are located in middle-income tracts. It is further noted that Gotham’s LMI area penetration declined significantly from the 22.2% and 28.2% for number and dollar amount, respectively, that were reported at the prior evaluation.

Given these factors, Gotham’s geographic distribution of small business loans is weak.

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

Gotham’s lending distribution reflects marginally reasonable penetration among businesses of different sizes.

Revenues \$1 million or Less	SB Loans	Count <=\$1M	%	\$	%
2001	65	20	30.8%	\$1,562,300	
2002	32	10	31.3%	\$ 608,000	
Total	97	30	30.9%	\$2,170,300	17.2%

As the above table reveals, of 97 small business loans originated in the assessment area, 30 (or 30.9%) were to businesses with gross annual revenues of \$1 million or less. These loans total approximately \$2.2 million or 17.2% of all small business lending. The lending distribution based on borrower’s profile is relatively consistent with the figures reported at the prior evaluation.

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

Neither the bank nor the New York State Banking Department received any CRA-related complaints during the evaluation period.

- **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.

Examiners noted no practices intended to discourage applications for types of credit listed in the banking institution's CRA Public file.

Evidence of prohibited discriminatory or other illegal credit practices.

The most recent regulatory compliance examination conducted concurrent with this assessment found satisfactory adherence to anti-discrimination 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.

Gotham's clients are principally small business customers. The bank does not conduct activities to ascertain the credit needs of its community nor make efforts to communicate with members of its community regarding the credit services provided.

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.

Gotham does not market or provide any special credit related programs to make members of the community aware of the credit services offered. Marketing is limited to a window poster that features the availability of the checking accounts. Gotham reportedly develops business opportunities primarily through referrals from legal and accounting professionals as well as its existing client base.

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.

Management reported that it relies on the expertise of the Board of Directors on an ongoing basis and seeks their advice and counsel regarding the CRA statement, loan transactions and

letters of credit. The Directors are available to them daily, if necessary for guidance.

- **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.

Between evaluation, Gotham made charitable contributions totaling \$27,850. Beneficiaries include Church of St. John the Baptist, The Diabetes Institutes Foundation, Catholic Charities World Trade Center Support 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.

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.

LMI Penetration Rate

A number that depicts the percentage of a bank's total loans 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 to LMI geographies or borrowers.

Small Business Loans

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