



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, 2003

Institution: Bank Hapoalim B.M. (New York Branch)
1177 Avenue of the Americas
New York, NY 10036

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 the New York branch of Bank Hapoalim B.M. (“BHNY”) 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, 2003.

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 an institution’s 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 (“Evaluation”) be made available to the public. 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. These tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York State Banking Law.

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

OVERVIEW OF INSTITUTION'S PERFORMANCE

Overall Rating

BHNY's performance is rated "1," indicating an outstanding record of helping to meet the credit needs of its community. The rating is based on the following considerations:

- BHNY has a high level of community development loans and qualified investments for an institution of its size and capacity.
- The bank participates in community development initiatives not only by funding community development financial institutions (CDFIs), but also by supporting efforts to revitalize and stabilize LMI areas and by making loans to organizations that provide affordable housing for LMI individuals.
- As of year-end 2003, BHNY's community development loans and qualified investments totaled \$26.4 million, or 0.6% of total assets. Included within this total are \$2.7 million in new money for community development loans and \$1.0 million in new qualified investments. In addition, BHNY made grants totaling more than \$41 thousand to local community development organizations.
- BHNY occasionally uses innovative or complex qualified investments and community development loans. The bank utilizes third party lenders and relationships with local CDFIs to extend its reach across the assessment area.
- BHNY reported no community development services. Management is urged to find ways of providing such services within the assessment area.

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:

Bank Hapoalim's branch in New York (BHNY) was licensed by the New York State Banking Department in November 1974. BHNY is part of Bank Hapoalim B.M., a multinational banking corporation headquartered in Tel Aviv, Israel. The parent corporation was founded in 1921 and includes a network of 327 branches in Israel plus an additional 37 international branches worldwide. As of year-end 2003, BHNY reported total assets of \$4.6 billion, including gross loans of \$2.3 billion.

BHNY has three offices in New York, only one of which is insured by the Federal Deposit Insurance Corporation (FDIC). All three offices are located at 1177 Avenue of the Americas; however, administratively they operate as separate entities. The bank also has an agency in Miami.

BHNY does not originate or purchase any CRA-reportable mortgage, small business, or small farm loans. Accordingly, on February 3, 1997, the FDIC designated BHNY as a wholesale institution for CRA purposes. The institution's stated business strategy is to provide financing to midsize and large businesses through loan participations with various money center banks. Additionally, the bank provides wholesale and private banking services to non-US residents.

BHNY has not opened or closed any branches since the prior performance evaluation.

BHNY finances corporate clients through branches in New York City and Chicago. Private banking services are offered in New York to non-residents. In addition, the bank operates an advanced trading room in New York. Corporate activities in the U.S. include services related to Israel and Fortune 1000 companies, particularly through syndications with leading international banks.

Assessment Area:

BHNY has delineated its assessment area to include the following counties: New York (Manhattan), Kings (Brooklyn), Bronx and Queens Counties. The assessment area contains a total of 2,115 census tracts, including 310 (14.7%) low-income, 417 (19.7%) moderate-income, 754 (35.7%) middle-income and 572 (27.0%) upper-income tracts. The assessment area also includes 62 (2.9%) zero-income census tracts.

The assessment area appears reasonable based on the bank's location and its designation as a wholesale institution. There is no evidence that LMI areas have been arbitrarily excluded from the assessment area.

PERFORMANCE TEST AND ASSESSMENT FACTORS

I. Community Development Test - "Outstanding"

The Banking Department evaluates the CRA performance of wholesale banks pursuant to the "community development test" established in Section 76.11 of the General Rules and Regulations of the Banking Board. Performance criteria may include (1) the number and amount of community development loans, qualified investments or community development services; (2) the use of innovative or complex qualified investments and the extent to which the investment are not routinely provided by private investors; (3) the provision of community development services; and (4) the banking institution's responsiveness to the credit and community development needs of its assessment area.

BHNY participates in community development initiatives primarily through intermediaries that serve its assessment area. As of December 31, 2003, the bank had accumulated community development loans and qualified investments totaling \$26.4 million within its assessment area. The bank also made grants and donations totaling \$41.6 thousand.

BHNY's level of investment activity represents a decrease of \$3.6 million from the prior evaluation period; however, the change is not significant enough to warrant a rating downgrade. In other words, the bank's overall investment level remains acceptable.

The following table shows the distribution of Bank Hapoalim's community development loans and investments by type of activity. Approximately \$3.7 million of the bank's lending commitments and qualified investments represent new money.

Community Development Loans & Qualified Investments (Dollars Shown in Thousands)					
Category	Commitments			Outstanding Balances	
	#	\$	% of Total	\$	% of Total
Affordable Housing	2	450	1.7	17	0.1
Community Development Services	1	400	1.5	350	1.5
Economic Development	16	5,604	21.2	4,181	18.1
Revitalization & Stabilization	1	20,000	75.6	18,500	80.3
Total	20	26,454	100.0	23,048	100.0

The table immediately below shows the distribution of BHNY's qualified grants and donations by type.

Community Development Grants and Donations (Dollars Shown in Thousands)					
Category	Commitments			Outstanding Balances	
	#	\$	% of Total	\$	% of Total
Affordable Housing	4	16	39.1	16	39.1
Community Development Services	9	20	48.9	20	48.9
Economic Development	4	5	12	5	12.0
Revitalization & Stabilization	0	0	0	0	0.0
Total	17	41	100.0	41	100.0

The table below summarizes the distribution of BHNY's new commitments and the outstanding balances on those commitments.

New Commitments During the Evaluation Period (01/01/02 to 12/31/03)					
Category	Commitments			Outstanding Balances	
	#	\$*	% of Total	\$*	% of Total
Affordable Housing	1	250	6.7	4	0.1
Community Development Services	1	400	10.7	350	12.5
Economic Development	12	3,080	82.6	2,457	87.4
Revitalization & Stabilization	0	0	0	0	0.0
Total	14	3,730	100.0	2,811	100.0

* Dollar amounts shown in thousands.

These community development activities reflect the bank's continued commitment to serving the credit needs of its assessment area. Although these activities are not particularly complex or innovative, they appear to be responsive to the needs of the community.

Community Development Lending

As of December 31, 2003, Bank Hapoalim's community development loans and commitments totaled \$22.9 million, which is equal to approximately 0.5% of the bank's total assets. New loans and lending-related commitments totaled \$2.7 million. Based on dollar volume, 80.7% of BHNY's community development loans and commitments were for projects that revitalized and stabilized LMI communities. An additional 16.5% supported economic development. All of the loans and commitments fell within the bank's assessment area.

The following paragraphs provide brief descriptions of the community development loans and commitments outstanding during the evaluation period.

Economic Development

Bank Hapoalim has extended an additional \$850 thousand to two community development financial institutions (CDFIs) since the prior evaluation. These CDFIs provide financing, training and technical assistance to nonprofit organizations, community-based partnerships and local institutions that revitalize low-income communities through affordable housing and economic development programs.

National Community Capital Association (NCCA)

In November 2003, the bank approved a \$500 thousand revolving line of credit for NCCA. NCCA is a national membership organization of more than 140 CDFIs, including community development banks, credit unions, loan funds and venture capital funds, among others. The organization was created in 1986 to support and strengthen community development loan funds and other CDFIs by providing a complete range of products and services such as financing, asset management, training, consulting and policy advocacy. Through its

members, NCCA invests in small businesses, affordable housing, childcare and community facilities in economically disadvantaged urban, rural and reservation-based communities nationwide. As of the evaluation date, the credit facility had not been drawn upon.

New York National Bank – Andrew Velez Construction

New York National Bank (NYNB) is a minority-owned institution as well as a CDFI. In addition to maintaining a deposit relationship with the NYNB, Bank Hapoalim benefits from lending opportunities that the institution provides. In April 2002, BHNY approved a \$350 thousand revolving line of credit to support a major (\$20 million) construction project. The project entails the renovation and reconstruction of Con Edison's Third Avenue yard facilities in a moderate-income area of Brooklyn. The \$350 thousand line of credit represents BHNY's participation in a \$1.5 million Business Consortium Fund transaction. The Fund is a minority business development company created by the National Minority Supplier Development Council. The ultimate beneficiary of the loan, Andrew Velez Construction, is a certified minority-owned business. The credit facility will also support the revitalization and stabilization of a previously unoccupied area. The outstanding balance on the loan is \$227 thousand.

Structured Employment Economic Development Corporation (SEEDCO)

The bank increased its revolving line of credit to SEEDCO by \$350 thousand between examinations. As of the examination date, the approved \$600 thousand facility was fully utilized. SEEDCO is a national non-profit organization and a certified CDFI that lends to for-profit and non-for-profit entities in New York City.

Nonprofit Finance Fund (NFF)

NFF is a local CDFI that provides financial services to non-profit organizations nationwide. Borrowers and advisory clients include organizations in health and social services, childcare, education and the arts. In July 2002, the bank increased its revolving line of credit from \$300 thousand to \$600 thousand. The entire \$600 thousand was outstanding as of the evaluation date.

Low-Income Housing Fund (LIHF)

As noted in the prior evaluation, the bank has granted a \$400 thousand revolving line of credit to LIHF. The Low Income Housing Fund is a CDFI that provides financing, technical assistance and other services to non-profit organizations nationwide. BHNY provides the credit facility at below-market rates so that LIHF can provide more affordable financing to its clients. The line of credit was fully utilized as of the evaluation date.

National Federation of Community Development Credit Unions (NFCDCU)

The federation is a CDFI that represents credit unions serving low-income communities. The bank granted a \$1 million revolving credit line to the NFCDCU in April 2001. The line has a current balance of \$200 thousand.

New York Business Development Corporation (NYBDC)

In August 2002, the bank renewed a \$1 million revolving line of credit to NYBDC with the full amount outstanding. NYBDC was created by a special act of the New York State

Legislature in 1955 and has been supported by BHNY since 1999. NYBDC facilitates the growth and expansion of small and midsize businesses located in New York State by providing long-term working capital, equipment and real estate loans either in participation with the banking industry and the Small Business Administration or as a supplement to their financing.

New York National Bank – AJC Foods

In April 2001, Bank Hapoalim participated in a \$400 thousand term loan with NYNB to assist AJC Foods with the purchase and renovation of a supermarket located in a moderate-income area of the Bronx. This loan helped revitalize and stabilize a moderate-income area and provided job opportunities for local residents. The current outstanding balance on this facility is \$124 thousand.

Revitalization and Stabilization

The bank continues to support community revitalization efforts. While lending for revitalization and stabilization decreased to \$20 million from the \$21.6 million reported at the prior evaluation, this type of activity accounts for 75.6% of the bank's community development portfolio. There have been no new commitments in this area since the prior evaluation.

Clay Park Labs

In March 2001, BHNY approved a \$20 million revolving line of credit to Clay Park Labs. This company is located in a low-income census tract within a certified Economic Development Zone and provides employment to more than 500 individuals in the bank's assessment area. The financing provided by BHNY has aided in the revitalization and stabilization of the Economic Development Zone.

Affordable Housing

Since the prior examination, BHNY approved one loan for \$250 thousand to support affordable housing for LMI individuals in New York.

Neighborhood Housing Services - CASH IV Program

In October 2002, BHNY approved a \$250 thousand revolving line of credit to Neighborhood Housing Services (NHS) under the Cash IV program. Administered by NHS, the Cash IV program provides financing for low- and moderate-income first time homebuyers in New York, Westchester, Nassau and Suffolk Counties. As of the evaluation date, approximately \$3.5 thousand was outstanding on this line of credit.

Neighborhood Housing Services of NYC (NHS-NYC)

In June 1998, BHNY extended a \$200 thousand revolving line of credit to NHS-NYC. As of the evaluation date, the line had an outstanding balance of approximately \$14 thousand. NHS-NYC is a not for profit organization that creates and preserves affordable housing and also promotes increased investment in under-served and declining neighborhoods. NHS-NYS pursues its community development objectives through a broad range of lending,

development, and rehabilitation initiatives as well as by providing homebuyer education and debt counseling services.

Community Service

During the evaluation period, BHNY extended one credit facility to an educational institution that serves LMI individuals within the assessment area.

Boricua College

In August 2003, the bank approved a \$400 thousand revolving credit facility to Boricua College. The institution, which is authorized by the New York State Education Department to confer associates, bachelors and masters degrees, is a liberal arts college focused on educating predominantly Puerto Ricans and other Spanish speaking people. The school was founded to stem the high drop out rates occurring in traditional high schools and colleges in NYC. Boricua addresses the language and cultural gaps inherent in these other institutions. The campuses are located on the upper west side of Manhattan and the Greenpoint/Williamsburg sections of Brooklyn. The approved credit facility provides working capital and funds are repaid as students receive Tuition Assistance Program (TAP) funds. The institution also receives funding from many foundations and corporation such as AT&T, IBM, American Express, Citibank, Con Edison, and the Ford Foundation. The current amount outstanding on the revolving facility is \$350 thousand.

Grants/Donations

BHNY supports community development organizations through grants and donations to various non-profit entities that create and promote affordable housing, educational and child-care programs that benefit low-and moderate-income communities in New York City. The following grants or contributions were made between January 1, 2002 and December 31, 2003.

- Lawyers' Alliance for New York: Lawyers Alliance provides a complete range of non-litigation legal services to various non-profit groups that operate in low-income communities. Total contributions for the review period were \$3,500.
- Neighborhood Housing Services CASH IV Program (NHS): NHS is a citywide, not-for-profit community revitalization organization that works to increase investments in declining neighborhoods, encourage and support neighborhoods' self-reliance, create, preserve and promote affordable housing in NYC neighborhoods. Total contributions for the evaluation period were \$6,250.
- Local Initiatives Support Corporation (LISC): LISC works with other community-based organizations to revitalize distressed communities and neighborhoods. LISC provides capital, technical expertise, training and information to promote the development of affordable housing, businesses, jobs and local leaders. BHNY contributed \$2,000 to LISC during the evaluation period.
- Other Donations: During the evaluation period, BHNY made donations of approximately

\$40,000 to various other community development organizations.

- **Qualified Investments**

The bank occasionally uses innovative qualified investments and community development services.

BHNY's level of investments increased to \$1.0 million from the \$800 thousand reported at the prior evaluation. The bank's investment activities were limited to the renewal of time deposits totaling \$530 thousand at seven financial institutions and to a \$500 investment in a qualified CRA fund. In addition, the bank made grants and donations totaling \$41.6 thousand during the current evaluation period.

The following paragraphs provide brief descriptions of the bank's qualified investments:

Access Capital Community Investment Fund

In April 2003, the bank invested \$500 thousand in Access Capital Strategies' Community Investment Fund. Access Capital Strategies (ACS) is a business development corporation that purchases private placement debt securities on the secondary market. ACS's Community Investment Fund was developed collaboratively by ACS, Fannie Mae, and the U.S. Conference of Mayors. ACS supports economic development by providing affordable financing for LMI individuals, small businesses and job creation initiatives.

BHNY maintains certificates of deposits totaling \$530 thousand at the following credit unions and banks: Neighborhood Trust Credit Union; Homesteaders Federal Credit Union; Henry Street Settlement Federal Credit Union; Bethex Federal Credit Union; Lower Eastside People's Federal Credit Union; Community Capital Bank; and New York National Bank. Both Community Capital Bank and New York National Bank are designated community development banks.

- **Community Development Services**

Bank Hapoalim's New York branch did not report any community development services for the evaluation period. Management is again encouraged to participate in community development activities within BHNY's assessment area.

II. 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 observed that would tend 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 of BHNY was conducted concurrently with this CRA evaluation and indicates satisfactory performance in terms of adherence to anti-discrimination or other applicable laws and regulations. No evidence of discriminatory or other illegal credit practices was noted.

III. Other 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.

As a wholesale institution, BHNY does not offer banking services to the general public. The bank ascertains the credit needs of its community through contact with financial intermediaries, charitable organizations and community development groups.

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.

The bank does not engage in marketing efforts focused on the general public.

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.

BHNY is the U.S. branch of a foreign bank and therefore does not have a board of directors. Nonetheless, the bank does have a CRA Committee comprised of four individuals including Bank Hapoalim's New York Branch Manager and Deputy Branch Manager. The CRA Committee is responsible for approving CRA initiatives and maintaining the bank's performance.

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.

GLOSSARY

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.

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 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 the U.S. Department of Housing and Urban Development (“HUD”).

Wholesale Institution

The term “wholesale institution” means a banking institution that is not in the business of extending home mortgage, small business, small farm or consumer loans to retail customers, and for which a designation as a wholesale banking institution by the appropriate Federal regulatory authority is in effect. When evaluating a wholesale institution’s CRA performance, the Banking Department looks primarily at its record of helping to meet the credit needs of its assessment are through community development lending, qualified investments and community development services.