



**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:** January 1, 2004

**Institution:** Cathay Bank  
777 North Broadway  
Los Angeles, CA 90012

**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 Cathay Bank’s New York branch operations 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 January 1, 2004.

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 based primarily on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 to 76.13 of the regulation. 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.

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

### **Overall Rating**

Cathay Bank's retail banking operations in New York State have earned a CRA rating of "2," indicating a satisfactory record of helping to meet community credit needs.

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

***Lending Activity:*** Cathay Bank's performance in its New York State assessment area reflects good responsiveness to community credit needs.

During the evaluation period, Cathay Bank ("Cathay") originated a combined total of 82 HMDA-reportable and small business loans within New York State. This volume of originations represents an increase of 24.2% (16 loans) from the previous evaluation period. Additionally, the bank's rank as a small business lender jumped 25 spots between evaluation periods, improving to 44<sup>th</sup> in the area, as its market share increased.

***Assessment Area Concentration:*** During the evaluation period, a substantial majority of Cathay's loans in New York State were originated inside the assessment area.

Nearly 90% of its loans, by both number and dollar volume, were originated within the assessment area. Cathay achieved this high concentration rate for its HMDA-reportable as well as its small business loans. During the evaluation period, the bank extended 83.3% and 90.2% of its HMDA-reportable loans in the assessment area based on number and dollar volume of loans, respectively. Similarly, its assessment area concentration ratios for small business loans were 92.2% by number and 93.6% by dollar volume of loans.

***Geographic Distribution:*** The geographic distribution of Cathay's loans within its New York State assessment area reflects excellent penetration into LMI census tracts.

During the evaluation period, the bank originated 54.3% of its HMDA-reportable loans in LMI geographies. In 2002, the bank's LMI penetration rate for these loans (50.0%) far exceeded the aggregate's penetration rate of 16.1%, and was well above the percentage of total owner-occupied housing located in LMI areas (13.2%). In 2003, the bank's LMI penetration rate for HMDA-reportable loans increased 7.9 percentage points to 57.9%.

The bank's small business lending achieved an LMI penetration rate of 36.2% during the evaluation period. In 2002, the bank's LMI penetration rate of 40.9% significantly outperformed the market aggregate's rate of 22.8%. In 2003, the bank's LMI penetration rate decreased to 32.0% based on number of loans, but remained significantly higher than the ratio of LMI-area businesses to total businesses in the assessment area (23.5%).<sup>1</sup>

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<sup>1</sup> Source: 2000 U.S. Census. Aggregate data for 2003 were not available when this report was written.

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***Borrower Characteristics:*** The distribution of loans by borrower characteristics reflects good penetration among businesses of different revenue sizes, including those with gross annual revenues of \$1 million or less. HMDA-reportable loans were not evaluated as part of this performance component because approximately 54% of these loans were multi-family mortgages for which borrower revenues are not reported.

Over the entire evaluation period, the bank extended 53.2% of its small business loans to businesses with gross annual revenues of \$1 million or less. During 2002, the bank's ratio was 59.1%, which exceeded the aggregate's ratio of 33.4%. In 2003, Cathay Bank's ratio declined but remained high at 48.0%.

***Community Development Lending:*** During the evaluation period, Cathay made a significant level of community development loans.

The bank originated 19 community development loans, totaling \$33.5 million, during the evaluation period. All of these loans were originated during the current evaluation period, and the volume was nearly quadruple the level reported during the prior evaluation period.

***Innovative or Flexible Lending Practice:*** Cathay's New York branches made limited use of innovative or flexible lending practices in serving the assessment area's credit needs.

During the evaluation period, Cathay extended 17 loans, totaling \$8.3 million, via special lending programs. This performance level is an improvement over the previous evaluation period, when Cathay showed use of innovative or flexible lending practices

**Investment Test:** "High Satisfactory"

During the evaluation period, the bank provided a significant level of qualified community development investments and grants. The current total of approximately \$4.6 million is more than triple the amount reported during the previous evaluation period (\$1.25 million). In view of the bank's improved performance, the rating for this performance component has been upgraded from "Low Satisfactory" to "High Satisfactory."

**Services Test:** "High Satisfactory"

***Retail Delivery Systems:*** The bank's retail delivery systems are located in the central business districts of their respective communities. In addition to being accessible to essentially all portions of the assessment area, all three of Cathay's branches are located in moderate-income census tracts.

***Alternate Delivery Systems:*** Cathay offers a variety of alternative delivery systems to serve its customers. Each branch offers a cash dispensing automated teller machine (ATM), and customers can access their accounts via the Internet, telephone banking, or bank-by-mail services.

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**Record of Opening and Closing Branches:** Cathay's record of opening and closing of branch offices within its New York City assessment area has not adversely affected the accessibility of its delivery systems, particularly for LMI geographies or individuals. In June 2002, Cathay opened a new branch in a moderate-income tract in Brooklyn.

**Business Hours:** No material change in office hours has occurred since the previous evaluation. Services, including business hours, do not vary in a way that inconveniences any portion of the assessment area. To make its services more accessible, the bank offers Saturday hours at all branches. Branch hours are convenient and comparable to those of other financial institutions in the area.

**Community Development Services:** Cathay Bank's New York branches provide a relatively high level of community development services.

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 the requirements of Part 76 of the General Regulations of the Banking Board.

## PERFORMANCE CONTEXT

### **Institution's Profile:**

Cathay Bank is incorporated under the laws of the State of California and operates under a banking charter issued by that state in 1962. Cathay is headquartered in Los Angeles and is a wholly owned subsidiary of Cathay General Bancorp ("CGB"). In October 2003, Cathay Bancorp and GBC Bancorp merged, creating the largest Asian-American banking corporation, Cathay General Bancorp. As a part of this merger of holding companies, GBC Bancorp's banking subsidiary, General Bank, merged into Cathay Bank.

Cathay Bank is a multi-state commercial bank with a service network that extends along the West Coast from Texas to Washington, and along the East Coast from New York to Massachusetts. The bank also has a presence overseas in the three important commercial centers in the Asian-Pacific Rim: Taipei, Shanghai, and Hong Kong. Cathay is a commercial lender that works primarily with small and midsize businesses, but serves individual consumers as well.

Cathay operates 39 full-service banking offices, including its main office. These branches are distributed as follows: 32 in California; three in New York; two in Massachusetts; one in Texas and one in Washington State. The bank's New York branches are located in New York County (Manhattan), Queens County and Kings County (Brooklyn). The Kings County branch was opened during the evaluation period, on June 6, 2002.

Cathay's brick-and-mortar operations in New York are supplemented by automated teller machines ("ATMs") at the bank's Brooklyn and Queens offices. In addition, each of Cathay's New York branches offers safe deposit box services.

As of year-end 2002, Cathay Bank's assets were \$2.8 billion. One year later, the bank's assets had increased to \$5.5 billion, largely due to the bank's merger with General Bank.

The following table shows Cathay Bank's loan portfolio as reported on Schedule RC-C of the bank's year-end Call Reports for 2002 and 2003.

<b>Total Gross Loans Outstanding</b>				
Loan Type	12/31/2002		12/31/2003	
	\$000	%	\$000	%
1-4 Family Mortgages	274,920	14.7	292,467	8.9
Multifamily Mortgages	83,654	4.5	193,923	5.9
Construction and Land Development	135,836	7.3	404,984	12.3
Commercial Mortgage Loans	917,716	49.0	1,568,719	47.6
Loans Secured by Farm Land	0	0.0	2,868	0.1
Commercial/Industrial Loans	425,406	22.7	819,568	24.9
Loans to Depository Institutions	116	0.0	611	0.0
Consumer Loans	14,308	0.8	10,496	0.3
Other Loans	25,271	1.3	5,661	0.2
Lease Financing Receivable	0	0.0	7,123	0.2
Unearned Income	(4,606)	(0.25)	(10,861)	(0.33)
<b>Total Gross Loans</b>	<b>1,872,621</b>	<b>100.0</b>	<b>3,295,559</b>	<b>100.0</b>

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For the calendar quarter ended December 31 2003, Cathay reported total loans of \$3.3 billion and total deposits of \$4.5 billion. Since the previous evaluation, total loans and total deposits increased 76.0% and 92.4%, respectively. These increases are attributable primarily to Cathay's merger with General Bank.

As of year-end 2003, the bank's primary loan products were commercial mortgages (47.6%); commercial & industrial loans (24.9%); and construction & land development loans (12.3%).

According to the FDIC's latest available deposit market data, dated June 30, 2003, Cathay holds a market share of 0.05% inside its New York market, ranking it 62<sup>nd</sup> among 111 deposit-taking institutions. According to the bank's Call Report for June 30, 2003, its New York branches account for roughly 6.7% of the institution's total deposits of \$2.4 billion.

### **Lending Products**

Cathay Bank's branches in New York State offer the following loan products:

- Real estate and construction financing
- Working capital financing
- SBA-guaranteed loans
- Import & export letters of credit
- Documentary collection financing
- Accounts receivable & inventory financing

Cathay is an approved SBA lender; however, the bank did not grant any SBA-guaranteed loans within the assessment area during the current evaluation period.

There are no legal or financial impediments affecting Cathay's ability to meet credit needs of its assessment area in New York State.

The assessment area appears reasonable based upon the bank's lending patterns and the location of its branches. There is no evidence that LMI areas have been arbitrarily excluded from the assessment area.

### **Assessment Area**

Cathay's New York assessment area includes New York (Manhattan), Kings (Brooklyn) and Queens Counties in their entirety.

Based on the 1990 U.S Census, the assessment area comprises 1,760 census tracts. As per geography income level, the tracts were 184 (10.5%) low-income tracts, 352 (20.0%) moderate-income tracts, 666 (37.8%) middle-income tracts, 511 (29.03%) upper-income tracts and 47 (2.67%) zero-income tracts.

According to data from the 2000 Census, there are 1,752 census tracts in the assessment area, including 159 (9.1%) low-income; 446 (25.5%) moderate-income; 574 (32.8%) middle-income; 531 (30.3%) upper-income; and 42 (2.4%) zero-income census tracts. The number of low-income census tracts decreased by 25 (13.6%) between 1990 and 2000, while moderate-income geographies increased by 94 tracts, or 26.7%. Overall, the number of LMI census tracts increased to 34.5% of total census tracts, compared to 30.5% in 1990.

Other shifts in the demographic characteristics of the assessment area include a 13.8% decrease in middle-income geographies and a 3.9% increase in upper-income tracts.

Distribution of Census Tracts in the Assessment Area: 2000 Census							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
New York	9	47	68	26	146	296	38.85
Queens	18	12	107	298	238	673	17.68
Kings	15	100	271	250	147	783	47.38
<b>Total</b>	<b>42</b>	<b>159</b>	<b>446</b>	<b>574</b>	<b>531</b>	<b>1,752</b>	<b>34.53</b>

Distribution of Census Tracts in the Assessment Area: 1990 Census							
County	Zero	Low	Moderate	Middle	Upper	Total	LMI %
New York	11	63	65	33	126	298	42.95
Queens	17	7	80	331	238	673	12.93
Kings	19	114	207	302	147	789	40.68
<b>Total</b>	<b>47</b>	<b>184</b>	<b>352</b>	<b>666</b>	<b>511</b>	<b>1,760</b>	<b>30.45</b>

### Details of Assessment Area:

Unemployment Rates: The following chart shows the annual average unemployment rates during 2002 and 2003 for the assessment area and the broader New York City and New York State areas.

Annual Average Unemployment Rates		
Geographic Area	2002	2003
Kings County	8.7%	9.0%
New York County	7.7%	7.5%
Queens County	7.2%	7.4%
New York City	8.0%	8.3%
New York State	6.2%	6.4%

Population: As of the 2000 Census, the assessment area contained 6.2 million people, which represents an 8.6% increase from the 1990 Census's count of 5.7 million residents. In 2000, people over the age of 65 accounted for 12.1% (752.5 thousand) of the total population, while people under the age of 17 represented 20.4% (1.3 million) of the total.

Income Characteristics: The 2000 Census estimated the median family income of the New York metropolitan statistical area ("MSA") to be \$46.5 thousand. By 2003, U.S. Department

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of Housing and Urban Development (“HUD”) estimates placed the MSA’s median family income at \$51.9 thousand.<sup>2</sup>

*Households:* As of 2000, there were 2.4 million households in the assessment area, representing a 6.2% increase over the number of households counted during the 1990 Census. In 1990, approximately 17% of households lived below poverty level, compared to 19% as of the 2000 Census.

*Families:* Between 1990 and 2000, the total number of families in the assessment area grew by 5.4%. As of 2000, there were 1.44 million families in the assessment area.

Data from the 1990 Census indicate that LMI families accounted for 42.8% of all families in the assessment area at that time. By 2000, LMI families had increased to 43.6% of all families within the assessment area. Between Censuses, the number of LMI families living in the assessment area increased by 7.5%. According to 2000 Census data, approximately 58% of all LMI families in the assessment area live in LMI census tracts.

*Housing:* Between 1990 and 2000, the number of housing units in the assessment area increased 5.6%, from 2,411 thousand units to 2,546 thousand units. As of 2000, a majority (61.5%) of the assessment area’s housing units were contained in buildings with five or more units, while 38.4% were in one- to four-family structures.

Owner-occupied units account for 28.4% of all units, while rental and vacant units constitute 66.0% and 5.7%, respectively, of the total housing stock. Only 16.9% of total owner-occupied units are located in LMI areas.

*Business Demographics:* Data from the 2000 Census indicate that there are approximately 430 thousand businesses in the assessment area. Almost 62% of these businesses have reported revenues of \$1 million or less, while 8% have revenues greater than \$1 million. Thirty percent (30%) of businesses in the area did not report their revenues.

Approximately 73% of businesses in the assessment area employ fewer than 50 people and about 90% operate from a single location. The major business sectors in the area include services (38.4%); retail trade (17.4%), and finance, insurance & real estate (9.5%).

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<sup>2</sup> Note: Data from the 2000 Census were not available for regulatory use until 2003. When introduced, the data were based on different MSA boundaries and thus are difficult to compare to previous Census data. As of 2002, HUD had estimated the old New York MSA’s median family income at \$62.8 thousand.

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## **PERFORMANCE TESTS AND ASSESSMENT FACTORS**

*The Banking Department assesses a large bank's CRA performance by evaluating its lending, investment and service activities using the lending, investment and service tests provided for in Parts 76.8, 76.9 and 76.10 of the General Regulations of the Banking Board.*

This performance evaluation incorporates a review of Cathay Bank's lending, investment and service activities within its New York State assessment area during 2002 and 2003. Loan products considered as part of this evaluation include small business loans and HMDA-reportable loans. In assigning performance ratings, small business lending was weighed more heavily than HMDA-reportable lending because small business loans accounted for more than 57% of the bank's combined lending based on number of loans. Furthermore, the significance of Cathay's HMDA-reportable lending was diminished by the fact that roughly one-half (54%) of the bank's HMDA-reportable loans were for multifamily loans. Since borrower income data is not collected for this type of loan, a substantial portion of Cathay's HMDA-reportable loans could not be considered when calculating its LMI borrower penetration ratios.

Statistics employed in this evaluation were derived from various sources. In addition to bank-specific loan data submitted by Cathay Bank, aggregate data for HMDA-reportable and small business loans originated during 2002 were obtained from the Federal Financial Institutions Examination Council ("FFIEC") and PCi Corporation's CRA Wiz<sup>®</sup> software. When this evaluation was prepared, aggregate data for 2003 were not available.

### **I. Lending Test: "High Satisfactory"**

*The bank's lending performance is evaluated pursuant to the following criteria: (1) Lending Activity, (2) Assessment Area Lending, (3) Geographic Distribution of Loans, (4) Borrower Characteristics, (5) Community Development Lending and (6) Innovative or Flexible Lending Practices.*

#### **Lending Activity: "High Satisfactory"**

Cathay's branches in New York have demonstrated good responsiveness to community credit needs, especially in light of the bank's overall market presence.

Within the New York City, Cathay's HMDA-reportable lending during 2002 earned a market share of 0.01% based on number of loans and 0.03% based on dollar volume. This level of activity placed Cathay 222<sup>nd</sup> among 479 HMDA-reporting lenders in the assessment area.

With respect to small business lending, Cathay ranked 44<sup>th</sup> out of 233 reporting lenders in the assessment area. The bank's market share was 0.23% based on number of loans and 0.20% based on dollar volume.

During the evaluation period, the bank originated 82 HMDA-reportable and small business

loans in total, which represents an increase of 24.2% (16) compared to the previous evaluation period. The increase was driven by a 62.1% increase in small business lending since the prior evaluation period.

The following chart summarizes Cathay's HMDA-reportable lending by loan purpose:

Distribution of HMDA-Reportable Loans (Dollar amounts are shown in thousands)								
Loan Type	2002				2003			
	#	% by #	\$	% by \$	#	% by #	\$	% by \$
Home Purchase	4	25.0	3,261	37.5	5	26.3	926	7.3
Refinance	4	25.0	953	11.0	3	15.8	1,123	8.9
Multi-Family	8	50.0	4,486	51.6	11	57.9	10,563	83.8
<b>Total</b>	<b>16</b>	<b>100.0</b>	<b>8,700</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>12,612</b>	<b>100.0</b>

### Small business loans

Since the prior evaluation period, Cathay Bank's small business loan volume has increased significantly. During the prior evaluation period, Cathay made 29 small business loans, compared to 47 loans during the current period. Between 2002 and 2003 alone, the bank's loan volume increased 13.6%, growing from 22 loans in 2002 to 25 loans in 2003.

### **Assessment Area Concentration: "Outstanding"**

During the evaluation period, the bank's branches in New York State originated a substantial majority of their loans inside the assessment area.

On a combined basis, Cathay extended 88.2% of the number and 91.7% of the dollar volume of its total lending inside the assessment area. For HMDA-reportable loans, the ratios were 83.3% by number and 90.2% by dollar volume. For small business loans, the ratios were 92.2% and 93.6%, respectively.

The assessment area distribution of Cathay Bank's HMDA-reportable and small business loans is shown below:

Distribution of Loans Inside and Outside the Assessment Area										
Loan Type & Year	Number of Loans					Dollar Volume (In Thousands)				
	Inside		Outside		Total #	Inside		Outside		Total \$
	#	%	#	%		\$	%	\$	%	
<b>Home Mortgage</b>										
2002	16	80.0	4	20.0	20	8,700	86.5	1,353	13.5	10,053
2003	19	86.4	3	13.6	22	12,612	92.9	963	7.1	13,575
<i>Subtotal</i>	<i>35</i>	<i>83.3</i>	<i>7</i>	<i>16.7</i>	<i>42</i>	<i>21,312</i>	<i>90.2</i>	<i>2,316</i>	<i>9.8</i>	<i>23,628</i>
<b>Small Business</b>										
2002	22	95.7	1	4.3	23	8,003	92.3	672	7.7	8,675
2003	25	89.3	3	10.7	28	10,015	94.7	559	5.3	10,574
<i>Subtotal</i>	<i>47</i>	<i>92.2</i>	<i>4</i>	<i>7.8</i>	<i>51</i>	<i>18,018</i>	<i>93.6</i>	<i>1,231</i>	<i>6.4</i>	<i>19,249</i>
<b>Total</b>	<b>82</b>	<b>88.2</b>	<b>11</b>	<b>11.8</b>	<b>93</b>	<b>39,330</b>	<b>91.7</b>	<b>3,547</b>	<b>8.3</b>	<b>42,877</b>

## Geographic Distribution of Loans: "Outstanding"

Within its New York assessment area, Cathay Bank achieved excellent penetration into LMI geographies with HMDA-reportable and small business loans.

During the evaluation period, the bank's HMDA-reportable lending achieved an LMI penetration rate of 54.3% based on number of loans and 70.5% based on dollar volume. The bank's small business lending also showed high LMI penetration rates of 36.2% based on number of loans and 39.0% in terms of dollar volume. Additionally, management has recognized the need for affordable housing and small business financing and has introduced loan products designed to help meet these needs.

### HMDA-Reportable Loans

During 2002, Cathay originated 50% of its total number of HMDA loans in LMI census tracts. This performance is substantially higher than the demographic and market aggregate benchmarks. To be specific, only 13.2% of total owner-occupied units in the assessment area are located in LMI census tracts, and the market aggregate made only 16.1% of its HMDA-reportable loans in LMI areas.

The following chart provides a summary of the bank's HMDA lending during 2002.

Distribution of HMDA-reportable Loans by Geographic Income Level								
Census Tract Income Level	Aggregate		Housing Units		Cathay Bank's New York Branches: 2002			
	% by #	% by \$	% Owner Occupied	% Renter Occupied	#	%	\$000	%
Low	4.0	4.1	2.2	13.6	1	6.3	495	5.7
Moderate	12.1	11.8	11.0	25.7	7	43.8	3,966	45.6
<i>Subtotal: LMI</i>	<i>16.1</i>	<i>15.9</i>	<i>13.2</i>	<i>39.3</i>	<i>8</i>	<i>50.0</i>	<i>4,461</i>	<i>51.3</i>
Middle	35.9	29.2	38.6	32.5	4	25.0	839	9.6
Upper	47.9	54.7	48.2	28.1	4	25.0	3,400	39.1
N/A	0.2	0.2	0.0	0.1	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>16</b>	<b>100.0</b>	<b>8,700</b>	<b>100.0</b>

In 2003, Cathay's LMI penetration rate for HMDA-reportable loans improved by 7.9 percentage points to 57.9%. Even using updated demographic data from the 2000 Census, which was published in 2003, the bank's performance still exceeds the 16.9% of total owner-occupied units that are located in LMI areas. During both years of the current evaluation period, Cathay's LMI penetration rates were well above the rates achieved during the prior evaluation period (i.e., 9.1% in 2000; 46.1% in 2001).

The table below shows the distribution of Cathay Bank's HMDA-reportable loans by tract income level for calendar year 2003.

Distribution of HMDA-reportable Loans by Geographic Income Level						
Census Tract Income Level	Housing Units		Cathay Bank's New York Branches: 2003			
	Owner Occupied	Renter Occupied	#	%	\$000	%
Low	1.9	11.4	1	5.3	800	6.3
Moderate	15.0	32.5	10	52.6	9,763	77.4
<i>Subtotal: LMI</i>	<i>16.9</i>	<i>43.9</i>	<i>11</i>	<i>57.9</i>	<i>10,563</i>	<i>83.8</i>
Middle	34.2	27.4	4	21.1	626	5.0
Upper	48.9	28.7	4	21.1	1,423	11.3
N/A	0.0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>19</b>	<b>100.0</b>	<b>12,612</b>	<b>100.0</b>

### Small Business Loans

During 2002, Cathay Bank's small business lending achieved LMI penetration rates of 40.9% based on number of loans and 52.8% based on dollar volume. The bank's penetration rates substantially outperformed the aggregate's LMI penetration rates of 22.8% and 22.5%, respectively. Cathay's lending distribution also compared favorably against a key demographic benchmark: 25.2% of all businesses are located in LMI areas. At the same time, the bank's performance during the current evaluation period was lower than during the previous evaluation period, when the bank's LMI penetration rates based on number of loans were 50.0% (2000) and 64.7% (2001).

The following table shows the distribution of Cathay's small business loans during calendar year 2002 based on geographic income level:

Distribution of Small Business Loans by Geographic Income Level							
Census Tract Income Level	Aggregate Lending		Business Distribution	2002			
	% by #	% by \$		#	%	\$000	%
Low	5.1	4.9	5.8	2	9.1	400	4.97
Moderate	17.7	17.6	19.4	7	31.8	3,850	47.81
<i>Subtotal: LMI</i>	<i>22.8</i>	<i>22.5</i>	<i>25.2</i>	<i>9</i>	<i>40.9</i>	<i>4,250</i>	<i>52.78</i>
Middle	28.9	23.9	26.0	8	36.4	1,698	21.09
Upper	45.6	49.2	45.7	1	4.5	25	0.31
N/A	2.7	4.4	3.1	4	0.0	2,080	25.83
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>22</b>	<b>100.0</b>	<b>8,053</b>	<b>100.00</b>

During 2003, Cathay's distribution of loans to LMI areas decreased approximately nine percentage points to 32.0%. However, in light of the bank's performance context, including the size of its New York operations, this performance is still reasonable, especially since only 23.5% of businesses in the assessment area are located in LMI census tracts.

The table below shows the distribution of Cathay Bank's small business loans during calendar year 2003 based on geographic income level.

Distribution of Small Business Loans by Geographic Income Level					
Census Tract Income Level	Distribution of Businesses	2003			
		#	% by #	\$000	% by \$
Low	4.7%	2	8.0	800	8.0
Moderate	18.8%	6	24.0	2,005	20.0
<i>Subtotal: LMI</i>	<i>23.5%</i>	<i>8</i>	<i>32.0</i>	<i>2,805</i>	<i>28.0</i>
Middle	22.1%	13	55.8	4,750	47.4
Upper	52.5%	4	16.0	2,460	24.6
N/A	1.9%	0	0.0	0	0.0
<b>Total</b>	<b>100.0%</b>	<b>25</b>	<b>100.0</b>	<b>10,015</b>	<b>100.0</b>

### Borrower Characteristics: “High Satisfactory”

In 2002 and 2003, 50.0% and 57.9%, respectively, of the bank’s HMDA-reportable loans were multifamily loans. These loans could not be included in the current analysis because of the unavailability of borrowers’ income. Therefore, the current borrower characteristics analysis is based solely on the bank’s small business loan data.

The distribution of borrowers based on the bank’s small business lending reflects good penetration among business customers with revenue sizes of less than \$1 million. In 2002, the branches extended 59.1% of their small business loans to businesses with gross annual revenues of less than a million dollars, while the aggregate extended 33.4% of their small business loans to borrowers in the same category.

In 2003, the distribution of loans to businesses with revenues of less than \$1 million decreased 11.1 percentage points to 48.0%. This was still a favorable rate of lending indicating the branches continued to focus on the credit needs of small-and medium-sized businesses.

The following table depicts the 2002 and 2003 distribution of small business loans based on gross annual revenues of businesses.

Distribution of Small Business Loans by Borrower Revenue Size							
Gross Annual Revenues	2002 Aggregate % by #	2002		2003		Total	
		#	%	#	%	#	%
\$1 Million or Less	33.4%	13	59.1	12	48.0	25	53.2
Over \$1 Million	N/A	9	40.9	11	44.0	20	42.6
Not Reported	N/A	0	0.0	2	8.0	2	4.3
<b>Total</b>		<b>22</b>	<b>100.0</b>	<b>25</b>	<b>100.0</b>	<b>47</b>	<b>100.0</b>

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## Community Development Lending: “Outstanding”

Cathay is a leader in making community development loans, despite having to operate in a highly competitive environment when seeking such opportunities.

The following table depicts the bank’s community development lending in its New York Assessment Area.

Community Development Lending Activities (Dollars Shown in Thousands)						
County	Affordable Housing		Revitalization/ Stabilization		Total	
	#	\$	#	\$	#	\$
Kings	5	1,643	0	0	5	1,643
New York	10	7,191	1	15,000	11	22,191
Queens	1	300	2	9,380	3	9,680
<b>Total</b>	<b>16</b>	<b>9,134</b>	<b>3</b>	<b>24,380</b>	<b>19</b>	<b>33,514</b>

During the evaluation period, Cathay originated 19 community development loans, totaling \$33.5 million, in its New York assessment area. These originations were entirely new money and were nearly quadruple the amount reported during the prior evaluation period. Most of these 19 loans supported affordable multifamily housing (16 loans, or 84.2%), while three of the loans (15.8%) supported the revitalization or stabilization of LMI neighborhoods.

Two of the bank’s community development loans supporting neighborhood revitalization and stabilization are described below:

- In 2002, the bank provided \$6.8 million to finance the construction of a 7-story building containing 47 residential units. The project is located in an area that is being redeveloped.
- In 2003, the bank financed a \$15 million bridge loan to take out the construction loan on an 11-story building containing 80 condominium units. The project is located in a moderate-income community on Manhattan’s lower east side.

As described below, the bank also originated several multifamily, HMDA-reportable loans that served a community development purpose. In accordance with regulatory reporting standards, these loans are considered not only as part of the bank’s HMDA-reportable lending, but also as part of its community development lending.

- As mentioned previously, Cathay extended 19 multifamily, HMDA-reportable loans during the evaluation period. Sixteen of these loans, totaling \$9.1 million, meet the regulatory definition of community development loan. Specifically, a substantial majority of the 16 qualified loans supported affordable housing for LMI individuals. The properties financed by these loans are located across the assessment area in the following manner: New York County, 62.5%; Kings County, 31.3%; and, Queens County, 6.2%.

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## **Innovative or Flexible Lending Practice**

Cathay's New York branches make limited use of innovative and/or flexible lending practices in serving the assessment area's credit needs. During the evaluation period, the bank originated 17 loans, totaling \$8.3 million, using special lending products and programs. This performance reflects improvement over the previous evaluation period, when Cathay made little use of innovative or flexible lending practices.

The following paragraphs summarize the bank's lending activities under various special programs during the evaluation period.

- *Community Home Loan Program*: The Community Home Loan program is designed to help LMI borrowers qualify for home ownership. There are no geographic limitations when the borrower's income is less than 120% of the area median income. If the applicant income is above 120% of the area median income, a key limitation is that the property must be located in an area designated by the FHA as targeted for revitalization and the borrower must participate in a homebuyer education program offered by Cathay's New York branches. During the evaluation period, the bank extended four-community home loans valued at approximately \$1 million.
- *Apartment Loan Program*: This loan program is designed to finance apartment buildings with five units and above. The maximum loan amount is \$2 million. Maturity is 15 years with 30 years amortization, and a maximum LTV of 75%. In 2002 and 2003, the bank originated 13 loans valued at \$7.3 million under its apartment loan program.

## **II. Investment Test: "High Satisfactory"**

*The bank's investment performance is evaluated pursuant to the following criteria: 1) the dollar amount of qualified investments; 2) the innovativeness or complexity of qualified investments; 3) the responsiveness of qualified investments to credit and community development needs; 4) the degree to which the qualified investments are not routinely provided by private investors.*

During the evaluation period, Cathay Bank's New York branches provided a significant level of qualified community development investment. The bank occasionally took a leadership position by offering support not routinely provided by private investors.

During the current investment period, Cathay held or acquired qualified investments totaling \$4.6 million, including qualified grants. This total is more than three times the amount reported during the previous evaluation period (\$1.25 million). In light of the bank's improved performance, the Investment Test rating has been upgraded from its previous level of "Low Satisfactory" to "High Satisfactory."

Descriptions of Cathay's qualified investments and grants are provided below.

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- Low-Income Housing Tax Credit (“LIHTC”): Cathay is a partner in two limited partnerships that supported either the renovation or construction of 1,414 affordable housing units in the assessment area and other communities in New York State. During the evaluation period, Cathay Bank invested \$4 million. A strong majority of this amount (81.4%) supported affordable housing development within the assessment area. The remaining 18.6% supported affordable housing efforts in adjoining communities and other areas of New York State.
  - CRA-eligible Mortgage Backed Securities: Cathay continues to carry a \$1 million investment in Fannie Mae mortgage backed securities. The investment currently has a book value of \$546.8 thousand. The underlying loans are secured by properties in the assessment area and 100% of the loans benefited LMI individuals.

### **Grants**

During the evaluation period, Cathay provided \$20 thousand in grants to various community-based service organizations. Examples include:

- In 2002, the bank donated \$1.5 thousand to the Asian-American Federation of New York. This organization provides research and advocacy on public policy issues, and offers technical assistance to health and human service agencies.
- In 2002, the bank donated \$5.0 thousand to the Low Income Housing Fund (“LIHF”). LIHF is one of the nation’s leading nonprofit community development financial institutions and engages in high volume lending. The organization also provides technical assistance to other nonprofit organizations.
- In 2003, the bank donated \$5.0 thousand to Child Care, Inc. This organization is one of only five members of New York City’s Child Care Resource and Referral Consortium, which helps parents and guardians evaluate their daycare needs and find qualified service providers.

### **III. Service Test: “High Satisfactory”**

*The service test evaluates a banking institution’s record of helping to meet the credit needs of its assessment area by analyzing 1) the availability and effectiveness of the bank’s systems for delivering retail banking services; and 2) the extent and innovativeness and responsiveness of the bank’s community development services.*

#### **Retail Banking Services: “High Satisfactory”**

*Accessibility of Delivery Systems:* Cathay’s delivery systems are accessible to essentially all portions of the assessment areas. Cathay Bank’s branches in New York are located within the main business district of their respective communities, which ensures their accessibility. In addition, all three branches are located in moderate-income census tracts.

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*Alternative Delivery Systems:* In addition to operating traditional brick-and-mortar branches, Cathay offers its customers a network of cash dispensing ATMs and online, telephone and bank-by-mail services. Using Cathay's e-Banking service, customers can manage their accounts 24-hours a day and can perform any of the following transactions: make loan payments, transfer funds between accounts or initiate stop payment orders.

*Changes in Branch Locations:* Cathay's record of opening and closing branch offices in New York State has not adversely affected the accessibility of its delivery systems. In 2002, Cathay opened a new branch office in a moderate-income area of Brooklyn (Kings County). No other offices have opened or closed since the previous evaluation.

*Reasonableness of Business Hours and Services:* Cathay's services do not vary in a way that inconveniences any particular portion of the assessment areas, particularly LMI geographies and/or LMI individuals.

As required by state law, Cathay Bank offers its customers in New York a low-cost Basic Banking checking account.

No material changes in office hours have occurred since the previous evaluation. To make its services more accessible, Cathay offers Saturday hours at all three of its branches in New York State. Branch hours are comparable to those of other financial institutions in the assessment area. All three branches are open from 8:30am to 4:00pm Monday through Friday and from 9:30am to 3:00pm on Saturday.

**Community Development Services: "High Satisfactory"**

Cathay Bank provides a relatively high level of community development services in its New York assessment area.

Examples of community development services performed by employees of the bank are provided below:

- A senior vice president of the bank is a member of the Asian-American Business Development Center of New York's ("AABDCNY") advisory committee on tourism and promotion for Chinatown. The activities of AABDCNY include the promotion of economic development through the financing of small businesses. AABDCNY also supports activities essential to LMI individuals or geographies to utilize credit or sustain economic development, including job creation. The bank's officer spent an average of one hour per month conducting this activity.
- In December 2003, a bank officer conducted a seminar on basic banking products and services for LMI seniors. The seminar was offered in collaboration with the Taiwanese American Community Organization and lasted approximately four hours. More than 25 seniors attended this seminar.

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- In August 2003, an officer of the bank presented a financial literacy seminar in collaboration with the Chinese Christian Herald Crusade, a social service organization. The presentation was based on the FDIC's *Money Smart* program and was delivered to a group of 14 participants, most of whom were LMI and/or recent immigrants.
  - In August 2003, the bank worked with various community partners to deliver a three-day financial literacy seminar.
  - In October 2002, an officer of the bank worked in partnership with the Chinese-American Real Estate Association ("CAREA") to provide a training session on real estate and construction loan financing. The program was designed to help LMI residents within the assessment area and recent immigrants understand the steps involved in obtaining a loan.
  - One of Cathay Bank's affiliates, a corporate charitable foundation, supports the enhancement, growth and success of communities in the bank's service area. In New York State, the foundation supports programs that either provide community services or promote affordable housing in LMI geographies and for LMI individuals. The senior vice president in charge of Cathay's New York and Massachusetts regions serves on the foundation's board of directors and provides valuable information about local community needs. In addition, the foundation holds quarterly meetings to review and approve funding requests from the community. Finally, the foundation's quarterly meetings provide a forum in which management can identify and discuss CRA-eligible service activities in which branch staff will be asked to participate.
  - In the wake of the terrorist attacks of September 11, 2001, Cathay Bank organized a non-profit corporation, 911 Healing Hands, Incorporated. The bank donated \$250 thousand to establish the organization, and subsequent fundraising efforts added nearly \$400 thousand to that seed money. In May of 2002, the organization granted \$320 thousand to the Asian-American Federation of New York to assist individuals and communities in New York City that were affected by the attacks. A senior vice president from Cathay's branch in Flushing, Queens is President and Director of the organization.

#### **IV. 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.

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**Evidence of prohibited discriminatory or other illegal credit practices.**

The most recent regulatory compliance and fair lending examinations of Cathay Bank's New York operations were conducted concurrently with this evaluation and indicate satisfactory adherence to anti-discrimination or other applicable laws and regulations. No evidence of prohibited discrimination or other illegal credit practices was noted.

**V. Process Factors****Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the bank's efforts to communicate with members of its community regarding the credit services being provided by the institution.**

The bank ascertains the credit needs of its assessment area through contact with community partners such as social service agencies and other community development organizations. Cathay also uses activities, such as seminars and fundraising events to identify or develop products suitable to serving the assessment area's credit needs.

**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.**

In August 2002, Cathay participated in a three-day seminar to educate the public about establishing credit with financial institutions. Additionally, the bank promotes itself and its products through various foreign language publications, and distributes promotional brochures to community organizations that work with first-time homebuyers. Bank representatives also work to educate the community about loan and mortgage products.

**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.**

Cathay's Board of Directors works in collaboration with the bank's CRA committee to formulate investment policies geared to meeting targeted CRA objectives. Meetings are held monthly to oversee the bank's CRA performance and to review CRA-eligible investment and grant-making opportunities.

**VI. 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.**

None.

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## 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:

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- 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;

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- 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.

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### **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.