



**NEW YORK STATE  
DEPARTMENT OF FINANCIAL SERVICES  
FINANCIAL FRAUDS AND CONSUMER PROTECTION DIVISION**

One State Street  
New York, NY 10004

**PUBLIC SUMMARY**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**Date of Evaluation:** June 30, 2018

**Institution:** Shinhan Bank America  
330 Fifth Ave, 4<sup>th</sup> Floor  
New York, NY, 10001

**Note:** This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Department of Financial Services 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 Shinhan Bank America (“SHBA”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of June 30, 2018.

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

Part 76 of the General Regulations of the Superintendent (“GRS”) implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate institutions’ performance. Section 76.5 further provides that the 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 in 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 of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York 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**

The Department evaluated SHBA according to the intermediate small banking institution performance criteria pursuant to Sections 76.7 and 76.12 of the GRS. The evaluation period included calendar years 2015, 2016, 2017 for the lending test, while community development activities were evaluated for the period from January 1, 2016 to June 30, 2018. SHBA is rated "2," indicating a "Satisfactory" record of helping to meet community credit needs with regards to regulatory standards.

The rating is based on the following factors:

**Lending Test:** "Satisfactory"

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

SHBA's average loan-to-deposit ("LTD") ratio was reasonable considering its size, business strategy, financial condition, aggregate, and peer group activity.

SHBA's average LTD ratio of 76.5% trailed its peer group's ratio of 82.6%. This LTD ratio is only for the Bank's New York operations (five NY branch offices). The Bank provided DFS with the deposit and loan data for New York as the UBPR contains this information only for SHBA's entire US operations.

**Assessment Area Concentration:** "Outstanding"

During the evaluation period, SHBA originated 99.6% by number and 99.7% by dollar value of its total HMDA-reportable and small business loans within the assessment area. This substantial majority of lending inside of its assessment area reflects an excellent concentration of lending.

**Distribution by Borrower Characteristics:** "Satisfactory"

SHBA's 1-4 family HMDA-reportable and small business lending demonstrated a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes. Greater weight was given to small business lending.

**Geographic Distribution of Loans:** "Satisfactory"

SHBA's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. Small business lending in LMI geographies was excellent, while HMDA lending was less than adequate. Greater weight was given to small business lending.

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Action Taken in Response to Written Complaints with Respect to CRA: “N/A”

Neither DFS nor SHBA received any written complaints during the evaluation period regarding SHBA’s CRA performance.

**Community Development Test: “Satisfactory”**

SHBA’s community development performance demonstrated a reasonable responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, considering SHBA’s capacity and the need for and availability of opportunities for community development in its assessment area.

**Community Development Lending: “Satisfactory”**

During the evaluation period, SHBA originated \$4 million in new community development loans and had \$5.5 million in loans outstanding from prior evaluation periods. Total community development lending represented 0.5% of annualized average total assets for New York only. While this demonstrated a reasonable level of community development lending over the course of the evaluation period, it lags the level of community development lending done in some of the Bank’s other assessment areas in the country based on the level of deposits and assets.

**Qualified Investments: “Satisfactory”**

During the evaluation period, SHBA made \$2.2 million in new qualified investments including \$4,300 in community development grants. The Bank had no investments outstanding from prior evaluation periods. This demonstrated a reasonable level of qualified investments over the course of the evaluation period.

**Community Development Services: “Needs to Improve”**

SHBA demonstrated a less than adequate level of community development services over the course of the evaluation period. The Bank failed to provide any community development services in New York, although it did provide community development services in other assessment areas in the country.

*This evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York Banking Law and GRS Part 76.*

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## **PERFORMANCE CONTEXT**

### **Institution Profile**

Chartered in 1990, SHBA is a full-service commercial bank headquartered in Manhattan, New York City. SHBA is a wholly owned subsidiary of Shinhan Bank, a large banking corporation located in Seoul, South Korea. Shinhan Bank in turn is wholly-owned by the Shinhan Financial Group.

SHBA operates 15 branches in the following five states: New York (5), New Jersey (2), California (5), Georgia (2), and Texas (1). The Bank operates five branches in New York State and offers a variety of products and services. Deposit products include personal and business checking, savings, and money market accounts, as well as certificates of deposit. Loan products include lines-of-credit, small business loans, and commercial and residential mortgage loans. Banking services offered include internet and mobile banking, telephone banking, online bill payment, automatic clearing house origination, wire transfer, and remote deposit capture.

Per the Consolidated Report of Condition (the "Call Report") as of December 31, 2017 filed with the Federal Deposit Insurance Corporation ("FDIC"), SHBA reported total assets of \$1.3 billion, of which \$1.2 billion were net loans and lease financing receivables. It also reported total deposits of \$1.2 billion, resulting in an LTD ratio of 104.1%. These totals were for SHBA's entire US operations; for New York only SHBA's total assets were \$559.3 million, total deposits were \$403.9 million, and total loans were \$264.4 million. According to the latest available comparative deposit data, as of June 30, 2018, SHBA had a market share of 0.03%, or \$388.4 million in a market of \$1.5 trillion, ranking it 82<sup>nd</sup> among 140 deposit-taking institutions in the Bank's New York assessment area.

The following is a summary of the Bank's loan portfolio, based on Schedule RC-C of SHBA's December 31, 2015, 2016, and 2017 Call Reports:

<b>TOTAL GROSS LOANS OUTSTANDING</b>						
Loan Type	2015		2016		2017	
	\$000's	%	\$000's	%	\$000's	%
1-4 Family Res. Mortgage Loans	142,881	16.2	189,522	18.1	220,261	18.0
Commercial & Industrial Loans	202,919	23.0	234,723	22.4	262,840	21.5
Commercial Mortgage Loans	498,620	56.4	587,884	56.1	708,247	57.9
Multifamily Mortgages	8,607	1.0	15,856	1.5	22,366	1.8
Consumer Loans	3,910	0.4	4,224	0.4	3,638	0.3
Construction Loans	1,603	0.2	5,703	0.5	5,427	0.4
Loans to Depository Institutions	25,000	2.8	10,000	1.0	0	0.0
Other Loans	21	0.0	64	0.0	1,190	0.1
<b>Total Gross Loans</b>	<b>883,561</b>	<b>100.0</b>	<b>1,047,976</b>	<b>100.0</b>	<b>1,223,969</b>	<b>100.0</b>

As illustrated in the above table, SHBA is primarily a commercial lender with 57.9% of its gross loan portfolio in commercial mortgage loans and 21.5% in commercial and industrial loans as of December 31, 2017. The Bank's loan portfolio mix remained relatively unchanged during the evaluation period.

SHBA's five New York branch offices are located in Queens (4) and New York (1) counties. One branch is in a low-income census tract, one is in an upper-income census tract, and the remaining three branches are in middle-income census tracts. Supplementing the branch offices is an automated teller machine ("ATM") network consisting of six deposit-taking ATMs, with one ATM located at each branch except for the Flushing branch, which has two ATMs.

*Examiners did not find evidence of financial or legal impediments that had an adverse impact on SHBA's ability to meet the credit needs of its community.*

### **Assessment Area**

SHBA's New York State assessment area is comprised of Bronx, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, and Westchester counties in their entireties.

There are 3,160 census tracts in the area, of which 376 are low-income, 757 are moderate-income, 1,061 are middle-income, 885 are upper-income, and 81 have no income indicated.

<b>Assessment Area Census Tracts by Income Level</b>							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Bronx	7	160	90	56	26	339	73.7
Kings	14	115	280	211	141	761	51.9
Nassau	9	7	28	159	81	284	12.3
New York	15	44	51	20	158	288	33.0
Orange	0	5	11	19	44	79	20.3
Putnam	0	0	0	8	11	19	0.0
Queens	27	24	176	308	134	669	29.9
Richmond	3	4	11	36	56	110	13.6
Rockland	0	4	10	7	44	65	21.5
Suffolk	1	6	68	192	56	323	22.9
Westchester	5	7	32	45	134	223	17.5
<b>Total</b>	<b>81</b>	<b>376</b>	<b>757</b>	<b>1,061</b>	<b>885</b>	<b>3,160</b>	<b>35.9</b>

### **Demographic & Economic Data**

The assessment area had a population of 13,045,603 during the evaluation period. About 13.5% of the population were over the age of 65 and 19.5% were under the age

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of 16.

Of the 2,997,878 families in the assessment area, 27.5% were low-income, 16% were moderate-income, 17.2% were middle-income, and 39.4% were upper-income. There were 4,648,056 households in the assessment area, of which 15.6% had income below the poverty level and 3.4% were on public assistance.

The weighted average median family income in the assessment area was \$86,092.

There were 5,111,541 housing units within the assessment area, of which 54% were one-to-four family units and 45.6% were multifamily units. A majority (49.3%) of the area's housing units were rental units, while 41.7% were owner-occupied. Of the 2,129,949 owner-occupied housing units, 17.7% were in LMI census tracts, while 82.1% were in middle- and upper-income census tracts. The median age of the housing stock was 71 years, and the median home value in the assessment area was \$508,182.

There were 875,142 non-farm businesses in the assessment area. Of these, 86.3% were businesses with reported revenues of less than or equal to \$1 million, 6.8% reported revenues of more than \$1 million, and 6.9% did not report their revenues. Of the businesses in the assessment area, 97.1% had less than fifty employees, while 91.5% operated from a single location. The largest industries in the area were services (47.8%), followed by retail trade (14.8%) and finance, insurance and real estate (9%); 8.4% of businesses in the assessment area were not classified.

According to the New York State Department of Labor, the average unemployment rate for New York State and the five counties that make up New York City steadily declined during the evaluation period. The six counties in SHBA's assessment area that are outside of New York City experienced a decline in unemployment rates from 2015 to 2016, but experienced an increase from 2016 to 2017. Bronx County consistently had the highest unemployment rates each year of the evaluation period.

<b>Assessment Area Unemployment Rate</b>						
	Statewide	Bronx	Kings	Nassau	New York	Orange
2015	5.3	7.8	5.9	4.2	4.9	4.7
2016	4.8	7.1	5.3	3.9	4.5	4.3
2017	4.7	6.2	4.6	4.1	4.0	4.6
	Putnam	Queens	Richmond	Rockland	Suffolk	Westchester
2015	4.3	5.0	5.8	4.5	4.7	4.5
2016	4.0	4.5	5.2	4.2	4.4	4.3
2017	4.3	4.0	4.6	4.4	4.5	4.6

### **Community Information**

Examiners interviewed representatives from two non-profit organizations located in the assessment area. Both organizations provide assistance to LMI individuals and



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small businesses.

The first interview was conducted with the Financial Program Director of an organization that helps LMI entrepreneurs build businesses in underserved areas in New York City. The organization provides legal, financial, and marketing services to businesses primarily in underserved areas that often reflect more diversity than many New York City neighborhoods, but have not experienced similar economic growth. Although there are bank branches in the areas, financial institutions fail to meet the banking needs of LMI small businesses, as they encounter barriers to opening business accounts such as business documentation requirements and personal credit guarantees.

Examiners also interviewed the Vice President of an organization that provides affordable housing, economic development and empowerment opportunities for LMI individuals. The organization focuses on Central Harlem, where half the population lives below the poverty level and less than 2% of businesses are owned by minorities. The contact cited several banks for actively providing financial assistance to help residents obtain affordable housing. Nevertheless, the contact stated that more collaboration between financial institutions and community development organizations is needed to assist LMI individuals and business owners.

Both interviews illustrate a common theme that while New York City has seen a rising economy, LMI areas (Harlem was particularly mentioned) are lagging in this growth. A common solution presented to the examiners is to have banks offer financial programs that provide financial education to LMI individuals that want to pursue small business opportunities.

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## **PERFORMANCE STANDARDS AND ASSESSMENT FACTORS**

*The Department evaluated SHBA under the intermediate small banking institution performance standards in accordance with Sections 76.7 and 76.12 of the GRS, which consist of the lending test and the community development test.*

*The lending test includes:*

- 1. Loan-to-deposit ratio and other lending-related activities;*
- 2. Assessment area concentration;*
- 3. Distribution of loans by borrower characteristics;*
- 4. Geographic distribution of loans; and*
- 5. Action taken in response to written complaints regarding CRA.*

*The community development test includes:*

- 1. Community development lending;*
- 2. Qualified investments;*
- 3. Community development services; and*
- 4. Responsiveness to community development needs.*

*DFS also considered the following factors in assessing the Bank's record of performance:*

- 1. The extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance;*
- 2. Evidence of any practices intended to discourage credit applications;*
- 3. Evidence of prohibited discriminatory or other illegal credit practices;*
- 4. Record of opening and closing offices and providing services at offices; and*
- 5. Process factors, such as activities to ascertain credit needs and the extent of marketing and special credit related programs.*

DFS derived statistics employed in this evaluation from various sources. SHBA submitted bank-specific information both as part of the examination process and on its Call Report submitted to the FDIC. DFS obtained aggregate lending data from the Federal Financial Institutions Examination Council ("FFIEC") and deposit data from the FDIC. DFS calculated LTD ratios from information shown in the Bank's Uniform Bank Performance Report, compiled by the FFIEC.

DFS derived the demographic data referred to in this report from the 2010 U.S. Census and the FFIEC. DFS based business data on Dun & Bradstreet reports, which Dun & Bradstreet updates annually. DFS obtained unemployment data from the New York State Department of Labor.

The evaluation period included calendar years 2015, 2016 and 2017 for the lending test, while the evaluation period for the community development test covered the period from January 1, 2015 to June 30, 2018.

Examiners considered SHBA's small business and HMDA-reportable in evaluating factors (2), (3), and (4) of the lending test noted above.

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SHBA is not required to report small business loan data, therefore SHBA’s small business lending is not included in the aggregate data. The aggregate data are shown only for comparative purposes.

Examiners gave slightly greater weight to SHBA’s small business lending because small business loans accounted for 69% by number and 55.1% by dollar value of all HMDA and small business loans originated by SHBA in the assessment area during the evaluation period.

At its **prior** Performance Evaluation as of December 31, 2014, DFS assigned SHBA a rating of “2,” reflecting a “Satisfactory” record of helping to meet the credit needs of SHBA’s communities.

**Current CRA Rating: “Satisfactory”**

**Lending Test:** “Satisfactory”

SHBA’s small business and HMDA-reportable activities were reasonable in light of SHBA’s size, business strategy, and financial condition, as well as aggregate and peer group activity and the demographic characteristics and credit needs of the assessment area.

**Loan-to-Deposit Ratio and other Lending-Related Activities:** “Satisfactory”

SHBA’s average LTD ratio of 76.5% trailed its peer group’s ratio of 82.6%. This LTD ratio is for the Bank’s New York operations (five NY branch offices) only. The Bank provided DFS with the deposit and loan data for New York as the UBPR contains this information only for SHBA’s entire US operations. While below the national peer group’s ratio, the Bank’s LTD ratio for the New York assessment area is considered reasonable.

The table below shows SHBA’s LTD ratios for New York only in comparison with the peer group’s ratios for the last nine quarters of the evaluation period.

<b>Loan-to-Deposit Ratios</b>													
	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Avg.
Bank	87.8	83.0	85.6	86.2	85.9	85.9	70.6	66.1	69.8	66.0	66.0	65.5	76.5
Peer	77.4	79.3	81.7	81.9	81.4	83.7	83.8	83.9	83.1	84.7	85.2	85.0	82.6

SHBA’s average LTD ratio for its entire US operations was 102% for the evaluation period, well above the peer’s average ratio of 82.6%.

The table below shows SHBA’s LTD ratios for its entire US operations in comparison with the peer group’s ratios for the 12 quarters since the prior evaluation.

Loan-to-Deposit Ratios													
	2015 Q1	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4	Avg.
Bank	98.7	95.8	99.1	105.5	102.8	107.9	104.1	100.9	101.2	101.7	102.2	104.1	102.0
Peer	77.4	79.3	81.7	81.9	81.4	83.7	83.8	83.9	83.1	84.7	85.2	85.0	82.6

Assessment Area Concentration: “Outstanding”

During the evaluation period, SHBA originated 99.6% by number and 99.7% by dollar value of its total HMDA-reportable and small business loans in New York State within its New York State assessment area. This substantial majority of lending inside of its New York State assessment area reflects an excellent concentration of lending.

HMDA-Reportable Loans

During the evaluation period, SHBA originated 100% by number and 100% by dollar value of its HMDA-reportable loans within the assessment area. The substantial majority of lending inside of SHBA’s assessment area reflects an excellent concentration of lending.

Small Business Loans

SHBA originated 99.4% by number and 99.5% by dollar value of its small business loans within the assessment area during the evaluation period. This substantial majority of lending inside of SHBA’s assessment area reflects an excellent concentration of lending.

The following table shows the percentages of SHBA’s HMDA-reportable and small business loans originated inside and outside of the assessment area.

Distribution of Loans Inside and Outside of the Assessment Area										
Loan Type	Number of Loans					Loans in Dollars (in thousands)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
<b>HMDA-Reportable</b>										
2015	23	100.0%	0	0.0%	23	9,927	100.0%	0	0.0%	9,927
2016	32	100.0%	0	0.0%	32	17,922	100.0%	0	0.0%	17,922
2017	36	100.0%	0	0.0%	36	19,862	100.0%	0	0.0%	19,862
Subtotal	91	100.0%	0	0.0%	91	47,711	100.0%	0	0.0%	47,711
<b>Small Business</b>										
2015	56	100.0%	0	0.0%	56	20,155	100.0%	0	0.0%	20,155
2016	57	98.3%	1	1.7%	58	18,914	98.4%	311	1.6%	19,225
2017	56	100.0%	0	0.0%	56	19,504	100.0%	0	0.0%	19,504
Subtotal	169	99.4%	1	0.6%	170	58,573	99.5%	311	0.5%	58,884
Grand Total	260	99.6%	1	0.4%	261	106,284	99.7%	311	0.3%	106,595

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Distribution by Borrower Characteristics: “Satisfactory”

SHBA’s 1-4 family HMDA-reportable and small business lending demonstrated a reasonable distribution of loans among individuals of different income levels and businesses of different revenue sizes. Greater weight was given to small business lending.

1-4 family HMDA-Reportable Loans

SHBA’s 1-4 family HMDA-reportable lending demonstrated a less than adequate distribution of loans among borrowers of different income levels.

During the evaluation period, the Bank’s average 1-4 family lending rates to LMI borrowers were 6.7% by number and 3.2% by dollar value of loans, which compared unfavorably to the aggregate’s 14.6% and 6.9%, respectively.

SHBA failed to make any loans to low-income borrowers during the evaluation period. While SHBA’s lending rates to moderate-income borrowers exceeded the aggregate’s rates in 2015, its rates were less than half the aggregate’s rates in 2016 and 2017. As a result, SHBA’s lending rates to LMI borrowers trailed the aggregate’s rates for each year of the evaluation period.

The following table provides a summary of the distribution of SHBA’s 1-4 family loans by borrower income.

Distribution of 1-4 Family Loans by Borrower Income									
2015									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	3,873	3.3%	756,438	1.4%	26.3%
Moderate	3	13.0%	1,018	10.3%	13,807	11.8%	2,988,059	5.7%	16.8%
LMI	3	13.0%	1,018	10.3%	17,680	15.1%	3,744,497	7.1%	43.1%
Middle	3	13.0%	1,093	11.0%	24,861	21.2%	6,886,266	13.1%	18.2%
Upper	11	47.8%	4,941	49.8%	66,646	56.8%	36,584,108	69.8%	38.7%
Unknown	6	26.1%	2,875	29.0%	8,128	6.9%	5,183,399	9.9%	
<b>Total</b>	<b>23</b>		<b>9,927</b>		<b>117,315</b>		<b>52,398,270</b>		
2016									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	3,565	2.8%	679,876	1.2%	26.3%
Moderate	1	3.2%	155	0.9%	14,652	11.3%	3,239,606	5.5%	16.8%
LMI	1	3.2%	155	0.9%	18,217	14.1%	3,919,482	6.7%	43.1%
Middle	7	22.6%	2,424	14.1%	28,681	22.2%	8,235,955	14.0%	18.2%
Upper	18	58.1%	11,353	65.8%	74,345	57.5%	41,312,976	70.2%	38.7%
Unknown	5	16.1%	3,320	19.2%	8,061	6.2%	5,373,160	9.1%	
<b>Total</b>	<b>31</b>		<b>17,252</b>		<b>129,304</b>		<b>58,841,573</b>		
2017									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	3,658	3.0%	678,055	1.2%	27.5%
Moderate	2	5.6%	329	1.7%	14,509	11.7%	3,268,055	5.7%	16.0%
LMI	2	5.6%	329	1.7%	18,167	14.7%	3,946,110	6.9%	43.4%
Middle	1	2.8%	164	0.8%	27,865	22.5%	8,131,546	14.3%	17.2%
Upper	25	69.4%	15,389	77.5%	71,253	57.6%	40,596,411	71.2%	39.4%
Unknown	8	22.2%	3,980	20.0%	6,467	5.2%	4,367,238	7.7%	
<b>Total</b>	<b>36</b>		<b>19,862</b>		<b>123,752</b>		<b>57,041,305</b>		
GRAND TOTAL									
Borrower	Bank				Aggregate				Fam.Dem.
Income	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%		3.0%		1.3%	
Moderate	6	6.7%	1,502	3.2%		11.6%		5.6%	
LMI	6	6.7%	1,502	3.2%	54,064	14.6%	11,610,089	6.9%	
Middle	11	12.2%	3,681	7.8%		22.0%		13.8%	
Upper	54	60.0%	31,683	67.4%		57.3%		70.4%	
Unknown	19	21.1%	10,175	21.6%		6.1%		8.9%	
<b>Total</b>	<b>90</b>		<b>47,041</b>		<b>370,371</b>		<b>168,281,148</b>		

### Small Business Loans

SHBA's small business lending demonstrated a reasonable distribution of loans among businesses of different revenue sizes.

During the evaluation, SHBA's lending to businesses with revenues of \$1 million or less averaged 47.3% by number and 47.2% by dollar value of loans, which was comparable

with the aggregate's rates of 48.8% and 30.7%, respectively.

SHBA's small business lending rate by dollar value of loans exceeded its aggregate's rate of lending each year of the evaluation period, while the Bank's lending rate by number of loans was comparable to the aggregate's rate each year.

The following table provides a summary of the distribution of SHBA's small business loans by the revenue size of the business.

<b>Distribution of Small Business Lending by Revenue Size of Business</b>									
<b>2015</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	27	48.2%	10,602	52.6%	167,294	49.2%	2,711,829	29.2%	78.3%
Rev. > \$1MM	20	35.7%	7,935	39.4%					6.0%
Rev. Unknown	9	16.1%	1,618	8.0%					15.8%
<b>Total</b>	<b>56</b>		<b>20,155</b>		<b>340,030</b>		<b>9,285,903</b>		
<b>2016</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	25	43.9%	8,079	42.7%	163,458	45.7%	2,952,358	28.5%	86.1%
Rev. > \$1MM	23	40.4%	8,714	46.1%					6.9%
Rev. Unknown	9	15.8%	2,121	11.2%					7.0%
<b>Total</b>	<b>57</b>		<b>18,914</b>		<b>357,491</b>		<b>10,363,934</b>		
<b>2017</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	28	50.0%	8,987	46.1%	190,435	51.4%	3,740,381	34.1%	86.3%
Rev. > \$1MM	21	37.5%	7,535	38.6%					6.8%
Rev. Unknown	7	12.5%	2,982	15.3%					6.9%
<b>Total</b>	<b>56</b>		<b>19,504</b>		<b>370,423</b>		<b>10,979,939</b>		
<b>GRAND TOTAL</b>									
<b>Rev. Size</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	
Rev. <= \$1MM	80	47.3%	27,668	47.2%	521,187	48.8%	9,404,568	30.7%	
Rev. > \$1MM	64	37.9%	24,184	41.3%					
Rev. Unknown	25	14.8%	6,721	11.5%					
<b>Total</b>	<b>169</b>		<b>58,573</b>		<b>1,067,944</b>		<b>30,629,776</b>		

#### Geographic Distribution of Loans: "Satisfactory"

SHBA's origination of loans in census tracts of varying income levels demonstrated a reasonable distribution of lending. Small business lending in LMI geographies was excellent, while HMDA lending was less than adequate. Greater weight was given to small business lending.

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HMDA-Reportable Loans

The distribution of SHBA's HMDA-reportable loans among census tracts of different income levels was less than adequate.

During the evaluation period, SHBA's HMDA lending rate in LMI geographies of 15.4% by number of loans trailed the aggregate's rate of 17.8%, while the Bank's lending rate of 14.1% by dollar value of loans was well below the aggregate's rate of 20.9%.

In 2015, the Bank originated no loans in low-income census tracts and only one loan in a moderate-income census tract. In 2016, SHBA did not originate any loans in low-income census tracts, but outperformed the aggregate in lending in moderate-income census tracts. In 2017, the bank outperformed the aggregate in lending in low-income census tracts, but trailed the aggregate in moderate-income census tracts.

SHBA's lending rates in LMI geographies trailed the owner-occupied housing unit demographics in 2015, but was comparable in 2016 and 2017, while the aggregate's rates were comparable to the demographics each year of the evaluation period.

The following table provides a summary of the distribution of SHBA's HMDA-reportable loans by the income level of the geography where the property was located.



Distribution of HMDA-Reportable Lending by Geographic Income of the Census Tract									
2015									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	3,650	3.0%	3,025,549	4.7%	2.5%
Moderate	1	4.3%	175	1.8%	17,345	14.4%	9,708,527	15.0%	15.1%
LMI	1	4.3%	175	1.8%	20,995	17.4%	12,734,076	19.7%	17.6%
Middle	5	21.7%	2,201	22.2%	47,878	39.7%	19,180,257	29.6%	41.8%
Upper	17	73.9%	7,551	76.1%	51,539	42.8%	32,829,067	50.7%	40.6%
Unknown	0	0.0%	0	0.0%	43	0.0%	41,517	0.1%	0.0%
<b>Total</b>	<b>23</b>		<b>9,927</b>		<b>120,455</b>		<b>64,784,917</b>		
2016									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	0	0.0%	0	0.0%	4,031	3.1%	3,451,569	4.8%	2.5%
Moderate	6	18.8%	3,490	19.5%	19,099	14.5%	10,847,016	15.2%	15.1%
LMI	6	18.8%	3,490	19.5%	23,130	17.5%	14,298,585	20.0%	17.6%
Middle	13	40.6%	5,430	30.3%	53,348	40.4%	21,519,775	30.1%	41.8%
Upper	13	40.6%	9,002	50.2%	55,573	42.1%	35,557,933	49.8%	40.6%
Unknown	0	0.0%	0	0.0%	40	0.0%	59,624	0.1%	0.0%
<b>Total</b>	<b>32</b>		<b>17,922</b>		<b>132,091</b>		<b>71,435,917</b>		
2017									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	3	8.3%	1,101	5.5%	4,478	3.6%	3,885,150	5.5%	2.8%
Moderate	4	11.1%	1,950	9.8%	18,619	14.8%	12,357,970	17.4%	15.0%
LMI	7	19.4%	3,051	15.4%	23,097	18.3%	16,243,120	22.9%	17.7%
Middle	9	25.0%	4,438	22.3%	49,384	39.2%	19,778,174	27.8%	40.6%
Upper	20	55.6%	12,373	62.3%	53,475	42.4%	34,834,878	49.0%	41.5%
Unknown	0	0.0%	0	0.0%	175	0.1%	227,157	0.3%	0.1%
<b>Total</b>	<b>36</b>		<b>19,862</b>		<b>126,131</b>		<b>71,083,329</b>		
GRAND TOTAL									
Geographic Income	Bank				Aggregate				OO HUs
	#	%	\$000's	%	#	%	\$000's	%	%
Low	3	3.3%	1,101	2.3%		3.2%		5.0%	
Moderate	11	12.1%	5,615	11.8%		14.5%		15.9%	
LMI	14	15.4%	6,716	14.1%	67,222	17.8%	43,275,778	20.9%	
Middle	27	29.7%	12,069	25.3%		39.8%		29.2%	
Upper	50	54.9%	28,926	60.6%		42.4%		49.8%	
Unknown	-	0.0%	-	0.0%		0.1%		0.2%	
<b>Total</b>	<b>91</b>		<b>47,711</b>						

### Small Business Loans

The distribution of SHBA's small business loans among census tracts of varying income levels was excellent.

SHBA originated 32.5% by number and 32.3% by dollar value of its small business loans in LMI geographies during the evaluation period, while the aggregate originated 26.4% and 23%, respectively

SBHA's small business rates of lending in LMI geographies outperformed the aggregate's rates in each year of the evaluation period by number and dollar value of loans. SHBA's rates of lending to small businesses also exceeded the percentage of small businesses (business demographics) in LMI geographies, which ranged from 24.7% to 25.6% during the evaluation period.

The following table provides a summary of the distribution of SHBA's small business loans by income level of the geography where the business was located.

<b>Distribution of Small Business Lending by Geographic Income of the Census Tract</b>									
<b>2015</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	6	10.7%	2,140	10.6%	28,589	8.4%	599,871	6.5%	7.1%
Moderate	12	21.4%	4,264	21.2%	63,473	18.7%	1,479,132	15.9%	18.5%
LMI	18	32.1%	6,404	31.8%	92,062	27.1%	2,079,003	22.4%	25.6%
Middle	18	32.1%	5,440	27.0%	106,959	31.5%	2,896,133	31.2%	32.2%
Upper	19	33.9%	8,211	40.7%	134,562	39.6%	4,000,690	43.1%	40.5%
Unknown	1	1.8%	100	0.5%	6,447	1.9%	310,077	3.3%	1.8%
<b>Total</b>	<b>56</b>		<b>20,155</b>		<b>340,030</b>		<b>9,285,903</b>		
<b>2016</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	8	14.0%	2,902	15.3%	28,203	7.9%	721,908	7.0%	7.1%
Moderate	14	24.6%	4,238	22.4%	64,916	18.2%	1,704,896	16.5%	18.4%
LMI	22	38.6%	7,140	37.7%	93,119	26.0%	2,426,804	23.4%	25.5%
Middle	16	28.1%	4,817	25.5%	113,083	31.6%	3,175,804	30.6%	32.1%
Upper	18	31.6%	6,857	36.3%	144,611	40.5%	4,430,394	42.7%	40.6%
Unknown	1	1.8%	100	0.5%	6,678	1.9%	330,932	3.2%	1.8%
<b>Total</b>	<b>57</b>		<b>18,914</b>		<b>357,491</b>		<b>10,363,934</b>		
<b>2017</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	6	10.7%	2,623	13.4%	32,441	8.8%	816,832	7.4%	7.5%
Moderate	9	16.1%	2,767	14.2%	63,809	17.2%	1,719,438	15.7%	17.3%
LMI	15	26.8%	5,390	27.6%	96,250	26.0%	2,536,270	23.1%	24.7%
Middle	13	23.2%	4,711	24.2%	106,011	28.6%	3,026,982	27.6%	30.3%
Upper	27	48.2%	9,303	47.7%	162,704	43.9%	5,121,434	46.6%	43.2%
Unknown	1	1.8%	100	0.5%	5,458	1.5%	295,253	2.7%	1.7%
<b>Total</b>	<b>56</b>		<b>19,504</b>		<b>370,423</b>		<b>10,979,939</b>		
<b>GRAND TOTAL</b>									
<b>Geographic</b>	<b>Bank</b>				<b>Aggregate</b>				<b>Bus.Dem.</b>
<b>Income</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>\$000's</b>	<b>%</b>	<b>%</b>
Low	20	11.8%	7,665	13.1%		8.4%		7.0%	
Moderate	35	20.7%	11,269	19.2%		18.0%		16.0%	
LMI	55	32.5%	18,934	32.3%	281,431	26.4%	7,042,077	23.0%	
Middle	47	27.8%	14,968	25.6%		30.5%		29.7%	
Upper	64	37.9%	24,371	41.6%		41.4%		44.2%	
Unknown	3	1.8%	300	0.5%		1.7%		3.1%	
<b>Total</b>	<b>169</b>		<b>58,573</b>		<b>1,067,944</b>		<b>30,629,776</b>		

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Action Taken in Response to Written Complaints with Respect to CRA: “N/A”

Neither DFS nor SHBA received any written complaints during the evaluation period regarding SHBA’s CRA performance.

**Community Development Test: “Satisfactory”**

SHBA’s community development performance demonstrated a reasonable responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, considering SHBA’s capacity and the need for and availability of opportunities for community development in its assessment area.

During the evaluation period, SHBA originated \$4 million in new community development loans and had \$5.5 million in loans outstanding from prior evaluation periods. SHBA made \$2.2 million in new qualified investments, including \$4,300 in community development grants. The Bank had no investments outstanding from prior evaluation periods.

**Community Development Lending: “Satisfactory”**

During the evaluation period, SHBA originated \$4 million in new community development loans and had \$5.5 million in loans outstanding from prior evaluation periods. Total community development lending represented 0.5% of annualized average total assets for New York only. While this demonstrated a reasonable level of community development lending over the course of the evaluation period, it lags behind the level of community development lending done in some of the Bank’s other assessment areas in the country based on the level of deposits and assets.

As of June 30, 2018, SHBA reported total assets of \$1.4 billion, total deposits of \$1.2 billion, and \$1.2 billion in loans for its US operations. The Bank reported for its New York operations total assets of \$558.2 million, total deposits of \$388.4 million, and \$253.1 million in loans. New York assets, deposits, and loans accounted for 40%, 27.8%, and 18.1%, respectively, of the Bank’s total US operations.

<b>Community Development Loans</b>				
Purpose	This Evaluation Period		Outstandings from Prior Evaluation Periods	
	# of Loans	\$000	# of Loans	\$000
Affordable Housing				
Economic Development	1	4,000	1	1,173
Community Services				
Revitalize/Stabilize			1	4,281
Total	1	4,000	2	5,454

SHBA participated in the Small Business Administration loan program (SBA 504) by extending a loan in the amount of \$4 million to finance the purchase of a supermarket. The property is located in a middle-income census tract in Brooklyn, New York and is adjacent to low-income census tracts. The loan will help retain and create job opportunities for individuals living in the surrounding low-income areas.

Qualified Investments: “Satisfactory”

During the evaluation period, SHBA made \$2.2 million in new qualified investments including \$4,300 in community development grants. The Bank had no investments outstanding from prior evaluation periods. This demonstrated a reasonable level of qualified investments over the course of the evaluation period.

Community Development Investments and Grants		
	This Evaluation Period	
CD Investments	# of Inv.	\$000
Affordable Housing	3	2,241
Economic Development		
Community Services		
Revitalize/Stabilize		
<b>Total</b>	<b>3</b>	<b>2,241</b>
CD Grants	# of Grants	\$000
Affordable Housing		
Economic Development		
Community Services	3	4
Revitalize/Stabilize		
<b>Total</b>	<b>3</b>	<b>4</b>

During the evaluation period, SHBA purchased Ginnie Mae mortgage-backed securities that benefit the Bank’s assessment area. The securities were collateralized by ten residential mortgage loans made to low- and moderate-income borrowers within SHBA’s assessment area.

SHBA made the following grants during the evaluation period:

- SHBA donated a total of \$3,300 to a foundation that focuses on raising awareness of depression and prevention of suicide for Korean immigrants living in the United States. The organization assists those with mental health illnesses by providing them with the proper care, encouraging awareness of mental health issues, and helping young people to develop a positive outlook on their future.
- SHBA donated \$1,000 to a nonprofit organization that serves the needs of over 5,000 families annually. The organization provides cross cultural services that include education, economic, and personal well-being programs that address the needs of low-income individuals and immigrants in New York City.

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### Community Development Services: “Needs to Improve”

SHBA demonstrated a less than adequate level of community development services over the course of the evaluation period. While the Bank provided community development services in its other assessment areas in the country, it failed to provide any community development services in New York.

### Responsiveness to Community Development Needs:

SHBA demonstrated a reasonable level of responsiveness to credit and community development needs in its assessment area through community development loans, qualified investment, and community development services, considering the Bank’s capacity and the need and availability of such opportunities for community development in its assessment area.

### **Additional Factors**

**The extent of participation by the banking institution’s Board of Directors or Board of Trustees in formulating the banking institution’s policies and reviewing its performance with respect to the purposes of the CRA.**

SHBA’s board of directors reviews and approves the CRA policy annually or when deemed necessary, as a result of revisions or changes to the policy. SHBA performs a self-assessment annually, which is presented to the CRA committee and the board of directors for review.

### **Discrimination and other illegal practices**

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

DFS examiners found no evidence that SHBA intended to discourage applications for the types of credit offered by SHBA.

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

DFS examiners did not note evidence by SHBA of prohibited discriminatory or other illegal practices.

### **Record of opening and closing offices and providing services at offices**

SHBA did not open or close any branches during the evaluation period. Banking hours are either from 8:30 AM or 9:00 AM to 5:00 PM. Three of the five banking offices offer Saturday hours, including the office located in a low-income census tract.

Each banking office has at least one automated teller machine (“ATM”). All the ATMs

accept deposits. In addition, SHBA participates in the Allpoint ATM network, which provides customers with access to over 55,000 ATM's at no charge. SBHA also offers bank by mail, night depository services, telephone banking, internet banking, mobile deposit, remote deposit capture, ACH origination service, and a debit card. These alternative delivery systems allow personal and business customers to conveniently access the Bank's products and services.

Distribution of Branches within the Assessment Area							
County	N/A #	Low #	Moderate #	Middle #	Upper #	Total #	LMI %
Bronx							0%
Kings							0%
Nassau							0%
New York					1	1	0%
Orange							0%
Putnam							0%
Queens		1		3		4	25%
Richmond							0%
Rockland							0%
Suffolk							0%
Westchester							0%
<b>Total</b>	<b>0</b>	<b>1</b>	<b>0</b>	<b>3</b>	<b>1</b>	<b>5</b>	<b>20%</b>

### 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.*

SHBA participates in the small business administration ("SBA") loan program and offers checking and loan products that benefit small businesses.

- *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*

SHBA markets its products and services using flyers, the internet, and print advertising for promotional events. The Bank's products and services can also be accessed via SHBA's official website.

### Other factors that in the judgment of the Superintendent bear upon the extent to which SHBA is helping to meet the credit needs of its entire community

DFS noted no other factors.

## GLOSSARY

### Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

### Community Development

“Community development”:

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.

### Community Development Loan

A loan that has 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.

## **Community Development Service**

Service that has community development as its *primary purpose*, 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.

## **Geography**

A census tract delineated by the United States Bureau of the Census in the most recent decennial census

## **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.



## **Income Level**

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

<b>Income level of individual or geography</b>	<b>% of the area median income</b>
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

## **Small Business Loan**

A small business loan is a loan less than or equal to \$1 million.

## **Low or Moderate Income ("LMI") Geographies**

Those census tracts or block numbering areas where, according to the 2000 U.S. Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

## **LMI Borrowers**

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In cases where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development ("HUD").

## **LMI Individuals/Persons**

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

### **LMI Penetration Rate**

A number that represents the percentage of a bank's total loans (for a particular product) that was 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 in LMI geographies or to LMI borrowers.

### **Low-Income Housing Tax Credit (LIHTC)**

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

### **New Markets Tax Credit (NMTC)**

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

### **Qualified Investment**

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. 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.