

Public Disclosure

March 19, 1997

Community Reinvestment Act Performance Evaluation

**Bank of China
License Numbers 80028 and 80091**

**410 Madison Avenue and 42-44 East Broadway
New York, NY 10017 New York, NY 10002**

Office of the Comptroller of the Currency

**830 Morris Turnpike, 2nd floor
Short Hills, New Jersey 07078**

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **Bank of China** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **March 19, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Institution's CRA Rating: This institution is rated Satisfactory, based on the following factors:

- there is an adequate level of community development loans and qualified investments, with \$14 million in commitments made since the prior examination.
- the vast majority of loans and investments are in the assessment area.
- the branches have provided adequate community development services through a business education program.

Description of the Institution

The Bank of China is one of the four primary commercial banks in the People's Republic of China. It formerly specialized in international trade and foreign exchange, but recently was permitted to offer a full array of services. The bank ranks as the second largest bank in China, with total assets of \$240 billion as of December 31, 1995. The bank is headquartered in Beijing, China and is wholly owned by the government of that country. The bank has more than 12,000 offices and branches in China, and 525 overseas branches, offices and subsidiaries in 19 countries and territories.

The Bank of China has two branches in New York City, both of which are in the borough of Manhattan. The Midtown branch is located on Madison Avenue in the eastern section of mid-Manhattan. The Chinatown branch is located on East Broadway in lower Manhattan. Both of the branches are FDIC insured. The Bank of China also has a limited branch in Los Angeles, California, which is not FDIC insured and is not subject to the CRA. The primary focus of the NY branches is to provide trade financing for import/export businesses operating between

China and the U.S., as well as to fund project finance in both countries. Mortgage loans are primarily made as an accommodation for commercial loan customers and for Bank of China employees. Retail loans are not offered. A full range of deposit services is offered. Both branches were approved for a wholesale bank designation for CRA purposes, effective November 1, 1996. The two branches had combined total assets of \$2.2 billion and total loans of \$1.3 billion, as of December 31, 1996. Total deposits were \$1.4 billion, but included \$0.8 billion in interbank deposits from other banks in China. The bank has no legal impediments or other restrictions that would preclude it from meeting the needs of its assessment area. However, as a foreign bank, each of its branches must be separately licensed. In addition, the Federal Deposit Insurance Corporation Improvement Act of 1991 requires that, for all foreign banks, any future FDIC insured offices need to be established through an insured subsidiary bank.

Competition among financial institutions in Manhattan and the surrounding area is high, with a large number of multinational, regional and community banks. Manhattan, particularly the midtown area, is the predominant financial center in the U.S. for foreign banks. However, most foreign bank branches are not FDIC insured and lending activity is predominately centered in commercial loans to large companies. The Chinatown area has a large number of offices of Asian and Asian-American owned financial institutions, as well as branches of other banks and thrifts.

Description of the Assessment Area

The assessment area for both the Midtown and Chinatown branches is Metropolitan Statistical Area (MSA) 5600, which encompasses the metropolitan area of New York, New York. The assessment area includes the five boroughs of New York City (NYC), and the counties of Putnam, Rockland, and Westchester. NYC includes the counties of New York (Manhattan), Bronx, Kings (Brooklyn), Queens, and Richmond (Staten Island). The bank recently expanded the assessment area in conjunction with receiving the Wholesale designation. This has enabled the branches to make investments in, and lend to, community development organizations that direct their efforts throughout the NY metropolitan area. (Previously, the assessment area for the Midtown branch was the entire borough of Manhattan, and the assessment area for the Chinatown branch consisted of 19 census tracts surrounding the branch.) The population of the total assessment area is 8.5 million, and contains 2,497 census tracts. Of these census tracts, 13% are low income census tracts, 18% are moderate income, 33% are middle income, 34% are upper income, and 2% are not available. The median family income is \$37,734. Owner occupied housing comprises 33% of total occupied housing units. The unemployment rate within the metropolitan area ranges between 8% and 9%.

Manhattan serves as a major employment center for the rest of NYC and the other counties in the assessment area, as well as Long Island, northern NJ and southern Connecticut. Employment in the community is primarily in services and light manufacturing, and includes the company headquarters for a number of national corporations. Primary industries in the

community include finance, media, publishing, apparel, trade, legal, government, transportation, education, health care, tourism, food services, and retail. Businesses in the Chinatown area of Manhattan are concentrated in food services, the garment industry, and jewelry stores. The Midtown branch is located in a primarily commercial area, while the Chinatown branch is located in a mixed residential and commercial area, comprised primarily of rental units and small businesses.

Conclusions with Respect to Performance

The branches have an adequate level of loans to small businesses that promote community development. In addition, the branches have satisfactory participation, including loans and investments, in community development organizations that are involved in lending for small businesses and affordable housing. The activities of these organizations are substantially focused within the branches' assessment area, and some of these organizations show innovativeness and complexity in their activities. Community development services performed by the branches are adequate.

Community Development Loans

The branches have made \$9,912,750 in direct total loan commitments to small businesses for community development purposes since the previous CRA examination (December 31, 1994). There is presently \$6,456,813 in outstanding balances on these loans. (Because of the revolving nature of a number of these lines of credit, outstanding balances can vary considerably, particularly on a seasonal basis.) Direct loans to small businesses are centered on export/import companies, but include loans to a variety of businesses such as restaurants, garment manufacturers, and construction contractors. These include several loans that were guaranteed by the Small Business Administration (SBA). The loans meet the loan size eligibility standards, and promote economic development by lending in low- or moderate-income (LMI) areas or through job creation and/or retention for LMI persons. The majority of these loans are in the branches' assessment area.

The branches have also made \$500,000 in loan commitments to organizations that lend for affordable housing. This includes a \$200,000 term loan to Neighborhood Housing Services of New York City, Inc. This is a nonprofit organization that offers low interest-rate home improvement loans to low and moderate income persons. The branches also made a \$300,000 loan to the Local Initiative Support Corp. (LISC), which supports the development and rehabilitation of affordable housing in NYC. A portion of the \$300,000 loan proceeds was designated for a community development corporation (Hope Community, Inc.) for funding of predevelopment costs incurred in the rehab of abandoned buildings in a low income area (East Harlem).

The branches have also made \$975,000 in loan commitments to organizations that lend to small businesses. This includes a \$500,000 loan to the New York Business Development

Corp. This organization provides financing for small businesses in NY state. The branches also made a \$75,000 loan to Manhattan Borough Development Corp. This organization received an SBA grant to leverage private funds and provide credit enhancements for small business loans. In addition, the branches made a commitment to invest \$400,000 in the Foreign Bank Loan Fund. This loan fund, consisting of several foreign banks, will provide SBA loans to NY state-based highway contractors. However, the program has not yet been funded, and future funding is uncertain due to issues pending with one of the fund's sponsoring banks.

Community Development Investments

The branches have \$1 million in investments that were made since the previous CRA examination, and \$3.1 million in investments that were made prior to the last examination but which are still outstanding. This includes a total of \$4 million in two limited partnerships sponsored by the New York Equity Fund. These partnerships provide equity financing through low income housing tax credits for the development of affordable housing in the New York City area. The branches also have a \$100,000 time deposit in Community Capital Bank, Brooklyn, NY. This is a community development bank chartered specifically for the purpose of lending to support community development projects and programs. The bank makes loans within the five boroughs of NYC for small businesses and for housing for LMI families.

During 1995 and 1996, the branches made a number of qualifying grants for various community groups, including \$5,000 to Accion International, \$5,668 to Neighborhood Housing Services, and \$10,000 to the Business Outreach Center Network. Accion International is a Brooklyn based organization which helps primarily Latino small business owners through its microloan program. Neighborhood Housing Services is an organization that offers low interest-rate home improvement loans to LMI persons in NYC.

Community Development Services

Community development outreach services and retail banking services are adequate. The outreach services are focused on providing financial assistance for commercial loan customers. The Chinatown branch held a seminar in February 1996, with more than 100 attendees, to discuss recent changes in trade regulations which affect import/export companies. The branches refer potential SBA loan customers to the Pace University Small Business Development Center, which assists the customers in preparing business plans, loan proposals, and financial statements.

The branches also provide some enhanced banking services to consumers within the community. The branches provide their local customers with money transmittal services to China, using their extensive branch network in that country. This service is particularly popular with the large Chinese immigrant community in the area. The Chinatown branch keeps extended hours for consumer and business customers, with the office being open seven

days a week.

Compliance with the Antidiscrimination Laws

During the concurrent fair lending examination, no violations of fair lending laws and regulations were found.