



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

October 7, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**The Bank Of East Asia, Limited
License # 80097**

**202 Canal Street
New York, New York 10013**

**Office of the Comptroller of the Currency (OCC)
New York Metro Field Office
Federal Branches/Agencies
1114 Avenue Of The Americas, Suite 3900
New York, New York 10036-7780**

NOTE: This document is an evaluation of this 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. 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.

INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

The Bank of East Asia's (BEA) performance under the Community Reinvestment Act (CRA) is rated satisfactory. This rating for its performance during the period July 1, 1998 through June 30, 2002 is primarily driven by:

- BEA's average loan-to-deposit ratio of 116 percent during the assessment period;
- BEA's lending within its delineated assessment area (AA) totaled 88 percent of the number of loans originated and 78 percent of total dollars originated during the assessment period; and
- The distribution of loans originated by BEA in low- and moderate-income (LMI) census tracts reflects the distribution of such tracts within the branch's assessment area.

DESCRIPTION OF INSTITUTION

The Bank of East Asia, Limited, New York branch, with total assets of \$234 million, is a federal branch of The Bank of East Asia, Limited, Hong Kong, which has total consolidated assets of \$23 billion. BEA has had a presence in New York City since 1984 when it established a wholesale-funded, non-insured branch in midtown Manhattan. In 1989, BEA established the FDIC-insured Chinatown branch. BEA opened a loan production office (LPO) in Flushing, Queens in 1998 and recently introduced an ATM at its Chinatown location.

The branch's primarily business focus is commercial and trade-finance lending. At June 30, 2002, net loans represented 85 percent of total assets. Commercial and trade-finance loans represented 96 percent and 3 percent of the branch's loan portfolio, respectively. In addition, the branch has an additional \$63 million in unfunded loan commitments and letters of credit. BEA offers traditional deposit products, including savings, checking and money market deposit accounts. Additionally, certificates of deposits are available in US dollars as well as foreign currencies. In terms of credit products, BEA's offerings include commercial mortgages, installment loans, and lines and letters of credit. The branch also offers various types of consumer loans, including residential mortgages and overdraft protection. The branch also offers foreign exchange, collection and remittance services.

There are no impediments identified, legal or otherwise, which would hinder the institution's ability to help meet the credit needs in its assessment area. Competition in BEA's primary markets, i.e., Chinatown and Flushing, is intense. A web-based search revealed that there are 112 offices of various financial institutions, including multiple locations of the same institution, within a one-mile radius of the Chinatown branch. In Flushing, there are 56 offices within a two-mile radius of the LPO. Competition is offered by branches of large multinational and regional banking institutions in addition to thrifts and branches of other Chinese banks. BEA's CRA performance was last rated "satisfactory" in July 1998.

DESCRIPTION OF NEW YORK CITY

BEA's assessment area (AA) meets all regulatory guidelines and does not arbitrarily exclude low- and moderate-income areas. BEA has designated the five counties forming the five boroughs of New York City (NYC) as its assessment area. This includes Bronx, Kings (Brooklyn), New York (Manhattan), Queens, and Richmond (Staten Island) counties. These five counties represent a portion of the New York Metropolitan Statistical Area (MSA) 5600. This AA contains 2,216 census tracts. Of these tracts, 14 percent are low-income, 19 percent moderate-income, 35 percent middle-income, and 29 percent upper-income. No income information was available for 3 percent of the census tracts in the assessment area.

According to 1990 Census data, the total population of the assessment area was 7.3 million. The census median family income (MFI) is \$37,515 and the HUD's 2002 updated MFI is \$62,800. Twenty-eight percent of the total families in this AA are low-income families, 16 percent moderate-income, 19 percent middle-income, and 37 percent upper-income.

NYC is home to a diversified mix of businesses. Many national and international corporations are headquartered here. Historically, the downtown area has been dominated by the financial services industry. Industries operating in the midtown area include advertising, publishing and garment production. The retail sector is a major employer with several large department stores and small businesses operating throughout the AA.

After experiencing several years of good economic growth, the NYC economy has shown signs of weakening in line with the national economy. A major contributing factor was the September 2001 terrorist attack that destroyed the World Trade Center. Tourism, a major contributor to the NYC economy, has been negatively impacted and has had a ripple effect on other local industries and services. The volatility on Wall Street has also impacted the local and national economy. The AA's unemployment level has risen to 7.9 percent in July 2002, above the state rate of 6.1 percent for the same period.

Two community contacts with local business groups revealed the need for flexible small business lending given the low level of sophistication and technological expertise of local small businesses. Additionally, small business development services such as financial guidance, technical assistance and counseling services, were identified as another need.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

BEA had an average loan-to-deposit (LTD) ratio of 116 percent, which is considered to exceed standards for satisfactory performance. This ratio was based on figures from the Report of Assets and Liabilities of US Branches & Agencies of Foreign Banks filed quarterly since the previous CRA examination. This average LTD ratio represents an increase from the 90 percent average noted during our previous review. In addition to third-party deposits, the branch receives

funding from its Head Office in Hong Kong, which contributes to the branch's high LTD ratio.

Lending in Assessment Area

Loan Originations and Commitments July 1, 1998 through June 30, 2002 (loans in \$ thousands)				
Type of Credit	Inside Assessment Area		Outside Assessment Area	
	# Loans	\$ Loans	# Loans	\$ Loans
Trade Finance Facilities and Lines of Credit	206	176,959	27	41,155
Commercial Loans and Commercial Mortgages	146	258,263	20	79,828
Consumer Loans	7	1,108	0	0
Totals	359	436,330	47	120,983

A substantial majority of BEA's loans originations and commitments were within its AA, which exceeds standards for satisfactory performance. During the rating period, the branch originated 406 loans totaling \$557 million. Of this amount, 359 loans totaling \$436 million were originated within its designated assessment area. This represented 88 percent of the number of loans originated and 78 percent of total dollars originated.

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

An analysis of borrower income for consumer loans would not be meaningful since retail lending is not a business focus. BEA originated only 7 consumer loans totaling \$1.1 million during this rating period. Therefore, an analysis was performed on BEA's business lending, which represents a significant majority of its loan portfolio.

Business Loan Originations and Commitments by Business Revenue Size July 1, 1998 through June 30, 2002 (loans in \$ thousands)					
Revenue Size	% of Businesses	# Loans	%	\$ Loans	%
≤ \$1 Million	81	150	43	111,913	26
> \$1 Million	13	168	48	209,879	48
Totals *	94	318	91	321,792	74

* 6 percent of total businesses did not report revenue information.

During the assessment period, BEA originated 352 commercial loans in its assessment area. Of this amount, only 150 loans or 43 percent of total loans granted were to small businesses, which is defined as a business having revenues ≤ \$1 million. In terms of dollars originated, only 26 percent of such originations were to small businesses, while about half were to businesses with revenues greater than \$1 million.

BEA's level of penetration for lending to small businesses does not reflect the small business demographics of the assessment area and, as a result, is below standards for satisfactory performance. Based on 2001 business geodemographic data, 81 percent (or about 4 out of every 5) of businesses in BEA's AA were considered small businesses. Large businesses, i.e., revenues > \$1 million, represented 13 percent of total businesses with 6 percent not reporting revenue information. Additionally, our contacts with two local community groups during our examination revealed that there was a need for increased small business lending as well as flexible underwriting of such loans by local banks.

One contributing factor to the institution's performance is that it primarily operates in two highly banked markets, i.e., Chinatown and Flushing. There are a significant number of financial institutions competing for the same quality borrowers. It is not uncommon for borrowers to leave one institution for another as a result of product offerings, pricing, quality of service, etc.

Geographic Distribution of Loans

Geographic Distribution by Census Tract July 1, 1998 through June 30, 2002 (loans in \$ thousands)					
Census Tract	% in AA	# Loans	%	\$ Loans	%
Low	14	36	10	20,961	5
Moderate	19	152	42	139,288	32
Middle	35	38	11	19,240	4
Upper	29	112	31	225,762	52
N/A	3	21	6	31,078	7
Totals	100	359	100	436,329	100

Of the 359 loans BEA originated within its assessment area, 52 percent of the number of loans and 37 percent of total dollars were originated in low- and moderate-income (LMI) census tracts. BEA's geographic distribution of its loans has improved since the previous CRA review where only 41 percent of total loans and 22 percent of total dollars were originated in LMI tracts. However, the branch's originations in LMI tracts continue to be weighted towards moderate-income census tracts. Low-income and moderate-income tracts comprise 14 percent and 19 percent of total tracts in the NYC area, respectively. BEA's performance, in terms of the volume of loans originated, compares more than favorably to the demographics of its AA, while its performance in terms of dollars originated, is in line with the demographics. This meets the standards for satisfactory performance.

Responses to Complaints

No CRA-related complaints have been received since the previous CRA examination conducted in July 1998.

Fair Lending Review

An analysis of Home Mortgage Disclosure Act (HMDA) data and any public comments or consumer complaints was performed according to the OCC's risk-based fair lending approach. Based on its analysis of the information, the OCC decided that a comprehensive Fair Lending examination would not need to be conducted in connection with the CRA evaluation this year. The latest comprehensive Fair Lending examination was performed in 1998.