

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Arab American Bank** prepared by the **Federal Reserve Bank of New York** on behalf of the Board of Governors of the Federal Reserve System, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of **May 6, 1996**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating:

This institution is rated Outstanding based on the findings presented below.

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

Arab American Bank ("AAB") is a wholesale institution that engages in international finance, investments and other opportunities with foreign entities and large domestic corporations. The bank does not offer retail products. AAB ascertains community credit needs through financial intermediaries that concentrate on community development activities in New York City.

Since the last examination, AAB made 15 contacts with various community-based organizations involved in low-income housing, community, business, or economic development. Such organizations, the majority of which were contacted at the previous examination as well, included: South Bronx Overall Economic Development Corporation; Lawyers Alliance for New York; Manhattan Borough Development Corporation; Neighborhood Housing Services of New York City Inc.; LEAP Inc.; New York City Housing Partnership; Nonprofit Facilities Fund; Manhattan Comprehensive Housing; Classroom Inc.; and the Fifth Ave. Committee.

In addition to the meetings conducted with these organizations, management has also attended seminars sponsored by some of these organizations that addressed community credit needs, and participated in tours of some of the areas that AAB has targeted for development. These efforts are documented and reviewed by management to assess the impact on the bank's overall program.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The board of directors is generally involved in AAB's CRA program as evidenced by its review and approval of the bank's CRA statement and CRA Plan on an annual basis, along with any changes recommended by management. A review of board minutes for the period of September 1994 through February 1996 revealed that the board meets approximately ten times a year, and that CRA was a topic of discussion at three of these meetings. Senior management is required to report to the board about AAB's CRA-related activities at least semi-annually.

AAB has a formal CRA Plan that defines goals, objectives and a methodology for self-assessment. The Plan provides details on the types of community development activities in which the bank will engage, and describes the manner in which CRA oversight and training will be conducted. Since the last examination, several officers of the bank, including the CRA Officer and the Deputy CRA Officer, have attended seminars and presentations on CRA topics hosted by such organizations and groups as the Neighborhood Housing Services and the Federal Reserve's Community Affairs Staff.

AAB's policy requires that the CRA officer provide training to appropriate bank members to improve awareness of the CRA requirements. The CRA officer meets with bank personnel, particularly lending officers and marketing officers, on an as-needed basis to review CRA requirements.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

AAB primarily engages in international trade finance, investment and other business opportunities between the Arab World and the United States. The majority of its credit is to large corporations, foreign governments and foreign banks. As such, the bank does not offer retail credit or advertise in any media form. Information regarding the bank's CRA program and corporate contributions is communicated to community organizations through management's ascertainment efforts.

Due to the wholesale nature of AAB's business, direct advertising may not be appropriate.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

AAB, as a wholesale bank, does not originate residential mortgages, housing rehabilitation, home improvement, small business or small farm loans. To meet its CRA responsibilities, AAB seeks to provide loans and grants to not-for-profit community development and redevelopment organizations that in turn, provide financing in low- and moderate-income communities.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

AAB does not directly participate in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses or small farms. However, in 1994, AAB purchased four Small Business Administration certificates totaling \$1.0 million through the secondary market. Three of the certificates were from loans generated in New York City, while the other certificate was from loans generated in Yonkers. Outstandings currently total \$989 thousand.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

AAB's banking activities encompass a much wider area than the delineated community. However to meet the technical requirements of Regulation BB, AAB has delineated the five boroughs of New York City as its local community, which is reasonable and consistent with the political boundary criteria set forth in Section 228.3(b)(1) of Regulation BB. The delineation does not arbitrarily exclude any low- and moderate-income neighborhoods.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES (Cont.)

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

Since AAB's focus is wholesale international trade financing, credit activity was not analyzed on a geographic basis. AAB offers letters of credit to exporters across the United States, including the five boroughs of New York City, which engage in trade with the Middle East/North Africa. In addition, AAB's corporate contributions and community development activities consist of loans and grants made to organizations located within the five boroughs of New York City.

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

AAB operates one office occupying three floors of a building in midtown Manhattan.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

Due to the wholesale nature of the bank's credit activity, the applicability of the fair lending laws and regulations is limited.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

Due to the wholesale nature of the bank's lending activity, the applicability of the fair lending laws and regulations is limited.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

Since the last examination, AAB significantly increased its participation in community development initiatives that support affordable housing projects throughout New York City. At examination date, AAB's community development activity totaled \$6.7 million, which represents a \$5.3 million increase since last examination. The increase is primarily due to new commitments of \$6.0 million to a consortium of foreign and wholesale banks.

The consortium is a sole purpose corporation organized by a New York City housing organization to finance 49 percent of construction costs to build affordable housing for low- and moderate-income families. The consortium becomes co-lender to specific projects along with the originating construction lender who finances 51 percent of construction costs. The consortium's funds are insured by the State of New York Mortgage Agency for 75 percent of the organization's percentage of the construction costs. AAB participates in the following three consortium facilities:

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

V. COMMUNITY DEVELOPMENT (Cont.)

- In 1991, AAB made a \$2 million loan commitment in a \$50 million credit facility provided by the consortium. Outstandings currently total \$619 thousand.
- In 1995, AAB made an additional \$2 million loan commitment in a \$50 million revolving credit facility convertible to a 36-month term loan. Outstandings currently total \$1.1 million.
- In 1996, AAB made a \$4 million commitment under similar credit terms, which has not yet been drawn upon as of April 30, 1996.

The bank maintains a \$100 thousand deposit at a local community bank that provides credit and deposit services to low- and moderate-income individuals, small businesses and developers.

From the last quarter of 1994 through the first quarter of 1996, AAB made \$21 thousand in grants to seven organizations involved in housing and business development in low- and moderate-income areas in New York City.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

At the end of 1990, the bank entered into a written agreement with the Federal Reserve Bank of New York, which is still in effect.

Community Profile

The following New York City community profile is based on 1990 data obtained from the New York State Department of Economic Development, the New York State Department of Labor and the Bureau of the Census.

The total population of New York City is approximately 7,322,564 with minority residents comprising 57 percent of that figure. There are 2,819,401 occupied housing units, of which 29 percent are owner-occupied. There are 2,216 census tracts in New York City, of which 799 or 36 percent are low- and moderate-income.

The median household income was \$29,823 and the median family income was \$34,360. Of those persons for whom the poverty status had been determined, 19 percent were below the poverty level. The 1996 HUD adjusted median family income was \$45,800 for the New York, New York MSA. The MSA includes the five boroughs of New York City as well as Westchester, Putnam and Rockland counties.

The major occupations in New York City are managerial and professional specialty, and administrative support including clerical, services and sales. The major industries are professional and related services, finance, insurance, real estate, retail trade and manufacturing. It should be noted that the manufacturing and construction industries continue to decline while the health and social services industries continue to grow.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

V. COMMUNITY DEVELOPMENT (Cont.)

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

No other factors bear upon AAB's ability to meet the community's credit needs.