

REGULATION BB
COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION

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 access 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 **IBJ Schroder Bank and Trust Company** 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, as of **November 30, 1998**. 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 228.*

INSTITUTION

INSTITUTION'S CRA RATING: IBJ Schroder Bank and Trust Company's level of compliance with the CRA is assessed as **OUTSTANDING**, based on an evaluation of the performance criteria specified under the CRA with respect to the community development test for wholesale banks.

The bank's outstanding performance under the community development test is based on the following:

- A high level of community development loans, qualified investments and community development services.
- Extensive use of innovative or complex community development loans, qualified investments, and community development services.
- Excellent responsiveness to credit and community development needs in the bank's assessment area.

DESCRIPTION OF INSTITUTION

IBJ Schroder Bank and Trust Company ("Schroder"), headquartered in New York, New York, is a New York State-chartered corporation and a member of the Federal Reserve System. It is a wholly owned subsidiary of The Industrial Bank of Japan, Limited, a Tokyo-based bank holding company with total consolidated assets of \$365 billion as of June 30, 1998. For the same period, Schroder had total assets of \$2.6 billion, net loans and leases of approximately \$1.9 billion and total deposits of approximately \$2 billion. There are no financial or legal factors that would impede the bank in fulfilling its responsibilities under the CRA.

Schroder is a wholesale banking institution providing services to major corporations, financial institutions, governments and high net worth individuals. These services include middle market commercial lending, private banking and investment management services, corporate trust and agency services, and securities services. The bank does not extend home mortgage, small business or consumer credit to retail customers, except as an accommodation to its private banking clientele. Accordingly, on April 10, 1997, the Federal Reserve Board of Governors granted the bank designation as a wholesale institution under the CRA.

Schroder maintains one office, located at One State Street in lower Manhattan. Schroder's nonbank affiliates include IBJ Schroder Business Credit Corporation, which engages in asset-based financing and direct finance leases; IBJS Capital Corporation, a small business investment corporation ("SBIC"); IBJ Schroder Securities, Inc.; Delphi Asset Management, Inc.; and Innovest Capital Management, Inc.

The bank's previous CRA examination was conducted as of September 16, 1996, at which time the bank received an overall rating of "outstanding." The current examination is the first CRA examination conducted by the Federal Reserve Bank of New York since Schroder was designated a wholesale bank.

DESCRIPTION OF THE ASSESSMENT AREA

The bank has designated as its assessment area the portion of PMSA 5600 (New York, NY) generally referred to as New York City. The designation consists of Bronx, Kings (Brooklyn), New York (Manhattan), Queens and Richmond (Staten Island) Counties. The assessment area has not changed since the prior examination and is in technical compliance with the requirements of Section 228.41 of Regulation BB.

Performance Context

The following, demographic and economic information was obtained from publicly available sources that include the United States Department of Commerce's Bureau of the Census, 1990, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD") and the New York State Department of Labor.

Demographic Characteristics

Total population in the assessment area is approximately 7.3 million, about 86 percent of the total population of PMSA 5600 (New York, NY) and 41 percent of the total population of New York State. Of the 2,159 populated census tracts in the assessment area, 742 or 34 percent are low- and moderate-income ("LMI"). The majority of LMI tracts are located in Bronx and Kings Counties. Of the 1.8 million families in the assessment area, 666,929 or 37 percent reside in LMI census tracts.

Income Characteristics

According to the 1990 Census, the median family income in the assessment area is \$34,360, somewhat lower than the PMSA median family income of \$37,515. Median income levels vary considerably among the counties in the assessment area. Richmond County has the highest median income at \$50,734, while Bronx County has the lowest median income level at \$25,479. Of the families residing in the assessment area, 772,172 or 43 percent are considered LMI. The 1998 HUD estimated median family income for PMSA 5600 (New York, NY) is \$49,800.

Housing Characteristics

There are approximately 3 million housing units in the assessment area, but only 27 percent or 808,901 units are owner-occupied. Rental units account for 67 percent of housing units overall. In Bronx and New York Counties, however, the percentage of rental units is 79 percent and 75 percent, respectively. In Richmond County, only 34 percent of housing units are rentals. Of all housing units in the assessment area, approximately 63 percent or 1.9 million units are multifamily structures consisting of five or more units. This characteristic is most pronounced in New York and Bronx Counties, where 96 percent and 75 percent, respectively, of housing units are multifamily.

According to the 1990 Census, the median housing value in the assessment area is \$187,876, while median gross rent is \$496. In New York County, the median housing value of \$471,074 far exceeds the assessment area median. A comparison of housing costs with median income, particularly in New York County, shows that affordable owner-occupied housing is generally beyond the reach of LMI families in the assessment area, indicating a demand for affordable rental housing units. Community contacts made during recent CRA examinations confirmed this need.

Other assessment area credit needs identified by community contacts were loans for the rehabilitation of existing housing stock, small business loans to encourage the formation and expansion of small businesses, economic development lending to strengthen communities, and funding to support nonprofit community development organizations.

Labor, Employment and Economic Characteristics

The local economy is rebounding from a steep economic downturn that occurred between 1989 and 1992. Services employ the greatest number of persons in the assessment area, followed by finance, insurance and real estate ("FIRE") and government. Between March 1997 and March 1998, the number of jobs in New York City increased by 59,300 or 1.7 percent. Job growth in the service and retail sectors more than compensated for job losses in the manufacturing and government sectors. A resurgence of tourism in New York City and a strong financial industry have contributed to the retail and service sector growth.

Despite the increase in Job opportunities, however, New York City continues to have a comparatively high unemployment rate. In September 1998, the unemployment rate in New York City was 7.8 percent, compared with 5.5 percent for New York State. Local economists attribute this differential to an increase-in the number of persons in the local labor force believed to be caused in part by a change in the eligibility standards for public assistance benefits and the skill level of the labor force.

A map of Schroder's assessment area follows:

CONCLUSIONS WITH RESPECT TO THE COMMUNITY DEVELOPMENT TEST

The Community Development Test is rated OUTSTANDING.

VOLUME OF ACTIVITY

Schroder provided a high level of community development loans, qualified investments and community development services in order to help meet the credit and community development needs in the bank's assessment area.

Community Development Lending

Schroder has a high level of community development lending. As shown in Exhibit 1, community development loan commitments totaled \$4.1 million for the examination period (September 17, 1996, through November 30, 1998), of which \$450 thousand or 11 percent were new commitments originated since the prior examination. Total commitments at this examination represent a 50 percent decrease since the last examination when community development loans totaled \$8.2 million. Since the prior examination, management has redirected its resources and placed greater emphasis on qualified investments.

Consistent with wholesale bank operations, most lending activity was on an indirect basis, to intermediaries supporting community development initiatives in the bank's entire assessment area. Of community development loan commitments outstanding, \$2.7 million or 65 percent represent indirect lending.

Qualified Investments

Schroder has a high level of qualified investments. As shown in Exhibit 2, qualified investments totaled \$13.3 million at this examination, representing a 122 percent increase over the \$6 million in qualified investments existing at the prior examination. Of total investments, 63 percent or \$8.4 million were investments not present at the last examination.

Schroder's investments included \$571 thousand in grants and contributions supporting 39 nonprofit community development organizations and programs, including the biannual Board of Directors Community Affairs Award bestowed for a specific community development program or project. The most recent recipient was the Bedford Stuyvesant Restoration Corporation, which received the award in support of its Restoration Information Technology and Education ("RITE") Center, a job training program for low-income adults.

Community Development Services

Schroder provides a good level of community development services In its assessment area, including technical assistance and in kind donations directed toward providing organizational and operational support to community development organizations.

Technical Assistance

Directors and management are involved in seven community development organizations serving the needs of LMI communities and individuals in the bank's assessment area. Involvement committee includes directorships, finance committee memberships, and advisory positions at such organizations as the Local Initiatives Supporting Communities ("LISC"), Neighborhood Housing Services ("NHS") and the Grand Street Settlement.

In Kind Donations

Schroder has an ongoing system of donating equipment and furnishings to nonprofit organizations. Recipients of office furniture and computers include the South Bronx Overall Economic Development Corporation, NHS and the Washington Heights Business Improvement District, as well as six other organizations.

INNOVATIVE OR COMPLEX ACTIVITY

Schroder made extensive use of innovative or complex qualified investments and community development loans that benefit the bank's assessment area. Schroder has invested in a bank subsidiary, TBSJ Capital Corporation, an SBIC that serves a regional area including the bank's assessment area. Tile SBIC provides assistance to companies seeking long-term financing for growth, as well as for acquisitions, buyouts and restructuring. Operating an SBIC is considered complex because of the substantial commitment of funds, time and expertise, as well as the high level of risk associated with such an enterprise.

Through community development lending activities, the bank supports the Housing Loan Program ("HLP"), a complex lending program the bank initiated in conjunction with NES in 1990. HLP extends low-interest loans for the rehabilitation of small multifamily and mixed-use buildings in the bank's assessment area, loans not generally available directly from local financial institutions.

Schroder also continues to support NHS's Closing Assistance Support for Homebuyers ("CASH") program. Initiated in 1994, CASH provides loans for down payment and closing cost assistance to LMI home buyers throughout the bank's assessment area. CASH loans are funded from a loan pool established by a consortium of local banks. After successfully completing two prior loan pools, a third, CASH 111, was established during, the examination period. Schroder participated in the first two loan pools and has committed \$200 thousand to CASH III.

In addition, Schroder assisted in the formation of the new Neighborhood 2000 Fund ("N2F"), an innovative philanthropic collaboration of corporations, foundations and individuals providing funding for community development corporations ("CDCs") that support housing, economic development and community building initiatives in New York City's LMI communities. Over a four-year period, the fund will support approximately 50 competitively selected nonprofit CDCs with up to \$75 thousand in annual grants for core operating expenses to support housing economic development and community building initiatives. As of June 1, 1998, the fund totaled \$10.1 million in capitalization commitments from 30 donors. Schroder has committed \$200 thousand, payable in \$50 thousand installments over four years. N2F is the first such collaborative effort in New York City.

RESPONSIVENESS TO CREDIT AND COMMUNITY DEVELOPMENT NEEDS

Schroder exhibited excellent responsiveness to credit and community development needs in its assessment area. Through its community development lending initiatives, the bank exhibited strong responsiveness to affordable housing needs, which community contacts identified as the most critical need in the bank's assessment area. Overall, affordable housing lending activity totaled approximately \$3.9 million or 95 percent of total community development lending. Most lending was directed to the New York Equity Fund, an organization that supplies financing, for housing programs in LMI neighborhoods of Manhattan, Brooklyn and the Bronx. In addition, the bank's involvement in the CASH program assisted LMI home buyers throughout the assessment area. The First two loan pools for the CASH program provided down payment and/or closing cost assistance to approximately 600 LMI home buyers.

The bank's investments also exhibit a strong response to credit and community development needs. Of total investments, \$6.8 million or 51 percent were directed toward economic development initiatives. Investments directed toward affordable housing activities totaled \$6.2 million or 47 percent of total investments. Community service needs were addressed through investment grants totaling \$159 thousand as well as technical assistance and in kind donations to help provide organizational and operational support to community development organizations.

COMPLIANCE WITH FAIR LENDING LAWS

No credit practices were identified that violated the substantive provisions of the antidiscrimination laws and regulations, including the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act and the Home Mortgage Disclosure Act (Regulation C), and all relevant agency regulations pertaining to nondiscriminatory treatment of credit applicants.

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