

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **(Bank of Bermuda (New York) Limited)** 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 **December 9, 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.

Bank of Bermuda (New York) Limited 's (Bermuda) ascertainment efforts include contacts with groups that have experience in community credit and community lending programs.

The bank utilizes two methods to ascertain community credit needs. The first method requires regular contact with community organizations with which the bank maintains an ongoing relationship. Groups contacted since last examination include the Lower East Side Service Center, Neighborhood Housing Services, New York City Housing Partnership, and the South Bronx Overall Economic Development Corporation. The second method attempts to expand the bank's relationship with community groups that are new to the bank. The new groups Bermuda met with included CRA Advisers, Inc., National Federation of Community Development Credit Unions, Homesteaders Federal Credit Union, and Credit Incorporated. The bank has met with numerous groups since last examination to consider new funding proposals. Such efforts resulted in Bermuda's \$250 thousand loan commitment with several other banks for the financing of small minority- owned construction companies.

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 and its committees provide a satisfactory level of participation in the bank's CRA activities. The board of directors primarily participates in the CRA process through the review and approval of the annual CRA plan, review of regulatory examination reports, and the evaluation of appropriate lending, grant, and employee volunteer opportunities for community development programs. A review of the annual CRA statement and CRA Notice are part of this process. The CRA Committee keeps the board apprised of CRA- related activities. The CRA Committee consists of the bank 's president, the CRA Officer, and two other bank employees.

Since last examination, the CRA Committee has met every two months and on an ad hoc basis to evaluate numerous lending, grant, and volunteer opportunities for employees. The CRA Committee recently decided to conduct its meetings quarterly instead of every two months and on an ad hoc basis as in the past.

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.

Commitments and investments noted during this examination period are a significant increase over the less than \$350 thousand in CRA activity noted at the bank's last examination. Bermuda is a commercial bank, without a retail branch system through which it can deliver its services and products. The bank offers banking, trust,

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED (Cont.)

and credit services to its customers, which consist of medium- and large-sized businesses and high net-worth individuals. Its principal focus is on high net-worth clients with U.S. banking needs. New business is typically generated off referrals from existing customers, principal operating affiliates, and the parent bank in Bermuda. Due to the nature of its business, the bank does not advertise in any general circulation publications.

Without retail distribution channels, the bank relies on personal contacts, written correspondence, and telephone discussions with community organizations to communicate the bank's willingness to engage in community development activity. Considering the scope and nature of the bank's business, these communication channels are 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.

The bank serves a corporate, government, and institutional client base and does not offer or originate residential mortgage, housing rehabilitation, home improvement, small business or small farm loans to the general public. It occasionally extends retail loan products as an accommodation to its employees and customers.

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

The bank does not directly participate in governmentally-insured, guaranteed or subsidized loan programs for housing, small business, or small farms. However, Bermuda currently holds \$779 thousand in securities which are collateralized by Small Business Administration guaranteed loans.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

Bermuda's customers and lending activities are located throughout the United States and Bermuda. In order to meet the lending requirements of CRA, Bermuda has delineated a 29-block area in Manhattan from approximately 30th Street to 59th Street, with a western boundary of Eighth Avenue and an eastern boundary of Third Avenue. This is consistent with Section 228.3(b)(3) of Regulation BB. No low- and moderate-income areas have been excluded arbitrarily.

The bank does not view its delineation as a constraint to community development activities. Management considers opportunities to serve community development and revitalization needs throughout all of New York City.

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.

Bermuda's overall business is national and international in scope and focuses on the provision of transaction services to corporate and individual clients with interest generally in Bermuda. Consequently, the bank's lending was not analyzed on a geographic basis. However, management has stated its intention to meet the credit needs of its community primarily through its investment in various obligations of financial intermediaries and institutions within New York City that provide community development loans. The bank's existing community development activities are located within New York City and New York State.

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

In December 1996, Bermuda moved its one banking office from 350 Park Avenue to 570 Lexington Avenue in midtown Manhattan and has no plans to open any additional branches.

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 nature of its lending activity, the bank receives a limited number of credit applications. The bank does not discourage applications for the types of credit set forth in its CRA statement.

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

Due to the nature of the bank's lending activities, the applicability of the fair lending laws and regulations is limited. The examination indicates that Bermuda is in compliance with all substantive provisions of applicable antidiscrimination laws and regulations.

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

V. COMMUNITY DEVELOPMENT

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

The Bank's level of participation in several community development projects within its assessment area is considered strong. The bank has significantly increased its participation in community development initiatives. Commitments and investments noted during this examination period are a significant increase over the less than \$350 thousand in CRA activity noted at the bank's last examination. Since last examination, Bermuda's community development activity increased \$1.2 million and now totals \$1.6 million as reflected in Exhibit 1.

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.

There are no apparent impediments either legal, financial, or economic which would constrain the bank from meeting the financial needs of its community or client base.

Bermuda is a commercial bank chartered by the State of New York and is a member of the Federal Reserve System. The bank's sole shareholder, the Bank of Bermuda, Ltd. (the Parent), is an international financial institution headquartered in the British colony of Bermuda with offices, subsidiaries, and associated companies located in principal financial centers throughout the world.

The bank maintains its headquarters and sole office at 570 Lexington Avenue, New York City. As of September 30, 1996, the Bank reported assets of \$406 million, with federal funds sold representing \$265 million (or 65 percent) of assets and loans representing \$15 million (or 4 percent) of assets. The bank specializes in providing credit, trust, and investment services to an internationally diverse client base. Its primary business is the provision of transaction services to corporate and individual clients with interests generally in Bermuda. The Bank does not offer retail banking products and services to the general public.

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 United States Department of Labor, and the New York State Department of Labor, Division of Research and Statistics.

The bank's delineation is located within a portion of New York County (Borough of Manhattan) in New York City. Finance, insurance, real estate, and services are the strongest sectors of New York County's economy. New York County has a total population of 1.5 million with minorities comprising 51 percent of the population. Low- and moderate-income households are 40.3 percent of the county's households and 16.8 percent of New York City's households are living under the poverty line. The median family income is \$36,831. In January 1997, New York City's unemployment rate was 8.2 percent.

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

DISCUSSION OF INSTITUTION'S PERFORMANCE (Cont.)

its entire community.

Bermuda provides grants to community organizations involved in social, housing, and economic development. The bank 's total 1995 and 1996 grants totaled \$5.8 thousand and \$2.5 thousand, respectively, to housing and economic development organizations in New York City.