

PUBLIC DISCLOSURE

Date of Evaluation: June 4, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Name of Depository Institution: The Merchants Bank of New York

Institution's Identification Number: 02-36-5310

**Address of Institution: 275 Madison Avenue,
New York, NY 10016**

Federal Reserve Bank of New York

33 Liberty Street

New York, NY 10045

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.

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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 Community Reinvestment Act ("CRA") performance of **The Merchants Bank of New York** 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 **June 4, 1996**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This delineation 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.*

The new CRA regulation will be phased in over a two-year period beginning July 1, 1995. During that period, banks with total assets greater than \$250 million will be examined under the current regulation with its twelve assessment factors until July 1, 1997. However, to comply with the requirements of the Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994, this evaluation includes conclusions with respect to overall performance as well as the bank's performance in the New York Metropolitan Statistical Area, which the bank has delineated for CRA purposes.

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 Satisfactory based on the findings presented below.

The Merchants Bank of New York's ("Merchants") level of performance with the Community Reinvestment Act ("CRA") is assessed as "Satisfactory". Management demonstrated a more proactive commitment to its local community through the bank's CRA program. The bank has taken specific steps to meet community credit needs through participation in several community development projects and programs in its delineated areas. Most notably, the bank has significantly increased its lending in support of community development activities. Community development financing activity for the nine month period since last examination rose from \$200 thousand to \$6.4 million. Ascertainment outreach and marketing efforts are reasonable. (See the following sections for details: Conclusions With Respect To Performance Categories beginning on page 6 and Metropolitan Statistical Area analysis beginning on page 11.)

DESCRIPTION OF INSTITUTION:

Merchants' headquarters is located in New York County, which is part of MSA 5600 (New York, NY). The bank's primary market is the small- and medium-sized business sector located within the geographic area surrounding its seven branch offices based in Manhattan. Merchants lends to businesses generally engaged in the Textile, Garment, Fur and Jewelry industries. Although the bank is not a retail orientated institution, it does provide a limited selection of consumer credit products and deposit services, which include passbook savings, certificates of deposit, special checking and personal installment loans. As of March 31, 1996, the bank had total assets of \$993 million, deposits of \$769 million and total loans outstanding of \$250 million.

There are no financial, economic, or legal factors that would impede Merchants in fulfilling its responsibilities under CRA.

REASONABLENESS OF DELINEATED COMMUNITY

Merchants' delineated community is based on the effective lending territory criteria as described in Section 228.3(b)(2) of Regulation BB. However, various low- and moderate-income census tracts adjacent to the Midtown and Downtown delineations are not currently included, but should be added.

Since last examination, Merchants has not changed its delineation. The delineated community consists of a portion of metropolitan statistical area ("MSA") 5600 (New York, NY). Merchants has delineated two separate communities in New York County that comprise the area around each of its seven offices. The downtown delineation encompasses the Canal Street and Broadway branches. The Midtown delineation encompasses the two Fifth Avenue branches and the Sixth Avenue, Madison Avenue, and 47th Street branches. A map of the bank's delineated community is provided on the next page.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CATEGORIES:

The following is a summary of Merchants' CRA performance based on the five performance categories: 1) Community development; 2) Geographic distribution and record of opening and closing offices; 3) Marketing and types of credit offered and extended; 4) Discrimination and other illegal credit practices; and, 5) Ascertainment of community credit needs. See the MSA analyses beginning on page 11 for further details regarding the assessment factors that deal with performance. A discussion pertaining to the assessment factors that deal with the CRA process begins on page 13.

I. COMMUNITY DEVELOPMENT

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

Merchants' level of community development involvement is considered satisfactory and represents a significant improvement from last examination. Management actively pursued opportunities and made new financing commitments to a number of not-for-profit organization, most of which support small business development in New York County. Total community development commitments rose from \$200 thousand to \$6.4 million since last examination. The bank's financing consisted primarily of indirect loans, low-interest bearing deposits, and grants.

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

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

Merchants' geographic distribution of its small business lending needs to improve given the weak loan penetration in low- and moderate-income areas in the bank's downtown community.

A geographic analysis of the bank's small business lending was performed for the ten month period covering June 1995 through March 1996. The number and percentage of loans within the bank's delineation was significant, however, penetration in low- and moderate-income census tracts was unreasonable in relation to the percentage of low- and moderate-income census tracts within the bank's delineation. In addition, the percentage of small business loans in such areas decreased from 8.4 percent at last examination to 7.7 percent at this examination.

Since Merchants does not offer residential home mortgage loans and home improvement loan products to the public, no geographic lending analysis was performed.

Although Merchants offers a reasonable variety of small business and commercial loan products, the majority of its business customers are concentrated in the Textile, Garment, Fur, Jewelry, and Home Industries. As of December 31, 1995, sixty percent of the bank's commercial loan portfolio was centered in these industries.

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

Merchants' seven branches are reasonably accessible to all segments of the local community. No branches have been opened or closed since the last examinations. Branches have standard business hours and provide all products and services offered by the bank.

Since the last examination, Merchants relocated its headquarters to 275 Madison Avenue from its former location in Chinatown at 434 Broadway where a branch presence continues.

Merchants' board approved a branch closing policy on May 24, 1994 that reflects applicable federal and state law and includes relevant factors in determining whether to close a branch and the appropriate procedures for providing notice to customers.

III. 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.

Merchants' marketing efforts are considered adequate in relation to the bank's overall business strategy and specialized industry focus. However, the marketing program is not assigned a high priority as evidenced by management's minimal oversight of the bank's marketing efforts and the nominal amount budgeted annually for marketing. The bank's marketing efforts concentrate primarily on middle market businesses. Management advertises the bank's commercial credit products and services through regular business contacts with existing and prospective customers and through daily radio spots on three New York news radio stations. The bank's print advertising is limited to advertisements placed in one daily Chinese newspaper and in various not-for-profit organizations' journals. The print advertisements focus on automobile, personal and business credit products as well as the bank's image.

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.

As listed in its CRA statement, Merchants offers the following business credit facilities: time and demand loans, secured and unsecured loans, term loans (not to exceed 60 months), installment loans, letters of credit, and loans against notes payable for both foreign exports and domestic shipping. The latter two products, according to management, are not widely available in the marketplace, but do meet the credit needs of borrowers in jewelry, garment, and related industries. The bank does not originate residential mortgages, rehabilitation loans, or home improvement loans. Loans to individual consumers consist of less than five percent of Merchants' loan portfolio.

As of March 31, 1996, the bank had total assets of \$993 million, of which \$232 million (23.4 percent) were commercial loans. According to management, most of the bank's commercial loans are in the \$50 thousand to \$3 million amount range. About forty-five percent of its commercial loans are less than \$1 million, with no minimum loan amount. Only about 40 loans currently outstanding were made to small businesses with revenues of less than \$1 million. Below is a summary of the major industry concentrations of the bank's commercial loan portfolio as of December 31, 1995:

MAJOR INDUSTRIAL CONCENTRATIONS	
LOAN TYPE	% OF TOTAL
Wholesale Jewelry	21%
Jewelry Manufacturing	14%
Apparel and Furs	12%
Home Furnishings	7%
Miscellaneous Manufacturing	5%
Non-Durable	5%
Textiles	5%
Real Estate	4%
Other	27%
Total Commercial Loans	100%

The bank continues to lend to small- and medium-sized businesses with sales volumes ranging from \$1 million to \$75 million. Because of its expertise in particular industries, Merchants believes it can deliver superior service and tailor credit products to the particular needs of business customers in such industries.

The bank plans to offer a new credit product specifically designed to serve the needs of small business. The planned product is an overdraft checking line primarily intended to accommodate businesses with annual revenues of under \$1 million. Merchants established an initial goal of extending \$1 million in such credit by year-end 1996.

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

Merchants does not participate in governmentally-insured, guaranteed, or subsidized loan programs for housing or small business.

Presently, bank management is considering participation in the Small Business Administration loan program, however, no firm action has been taken.

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).

Merchants' written policies and procedures support nondiscrimination in lending and credit activities. No evidence of any practices or pattern intended to discourage applications on a prohibited basis, for any type of credit set forth in the bank's CRA statement, was noted during this examination. Management informally assesses the adequacy of its nondiscriminatory policies and procedures.

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

Merchants is in compliance with the substantive provisions of anti-discrimination laws and regulations including: the Equal Credit Opportunity Act (Regulation B), the Fair Housing Act, the Home Mortgage Disclosure Act (Regulation C), and any agency regulations pertaining to nondiscriminatory treatment of credit applicants.

V. 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.

Merchants' ascertainment activities are considered satisfactory and adequately inform management of the local community's credit needs. Since last examination, management contacted community development organizations, individual small and middle market-sized businesses, and organizations that support small business development. As a result of such contacts, management committed to several community development projects and in addition plans to offer an overdraft checking line to address the credit needs of small businesses.

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's involvement in the bank's CRA program has improved since last examination and is considered satisfactory. In response to last examination's findings, board members have become more directly involved in the bank's CRA efforts. Discussions with management and a review of board minutes revealed that board members: (1) participated in meetings with various community-based organizations and not-for-profit organizations; (2) discussed community development projects; (3) reviewed the bank's business loan portfolio and its geographic distribution; (4) developed a CRA plan with annual community development lending goals; and, (5) reviewed and responded to prior CRA examination recommendations.

METROPOLITAN STATISTICAL AREA ANALYSIS

CONCLUSIONS WITH RESPECT TO THE ASSESSMENT FACTORS THAT DEAL WITH PERFORMANCE: The categories that deal with the CRA process as well as demographics and economic factors that existed at the time of this examination are discussed beginning on page 13.

MSA 5600 (NEW YORK, NY)

For a summary of Merchants' performance in MSA 5600 (New York, NY), see Discussion of Institution's Performance on page 4.

I. COMMUNITY DEVELOPMENT

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

Merchants significantly improved its level of participation in various community development projects, organizations or activities within its delineation. During the first half of 1996, management increased its ascertainment and outreach efforts within its community, identified several organizations with whom it is willing to work and set specific lending targets. Merchants' board adopted a year-end 1997 goal of \$2 million in community development lending, investments and services. The 1996 CRA goal is \$600 thousand in new community development lending and \$39.5 thousand in grants.

For the nine month period since the last examination, community development commitments rose from \$200 thousand to \$6.4 million. The bank committed five new community development loans aggregating \$5.6 million, issued five grants totaling \$32 thousand, and maintained two deposits with local community development financial institutions totaling \$150 thousand. In addition, Merchants established revolving loan commitments totaling \$650 thousand to three community-based organizations that provide small business lending and health services. Ninety-eight percent of the total commitments represents indirect financing. Approximately \$5.7 million, or 88 percent of the financing, supports small business development. A New York County based non-bank SBA lender received \$5 million of this commitment amount.

The following exhibit shows the direct and indirect financing provided by Merchants to organizations within MSA 5600:

II. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

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

An analysis of the geographic distribution of Merchants' small business loans originated from June 1995 through March 1996 revealed that the majority of lending activity is within the bank's midtown and downtown delineations. However, the bank achieved a low level of lending penetration in low- and moderate-income census tracts in proportion to the percent of low- and moderate-income census tracts in the bank's delineation.

Merchants does not offer residential home mortgages, home equity or home improvement credit products to consumers. Consequently, no geographic analysis was performed for these products.

Small Business Lending

Of the 4,894 loans to businesses in Manhattan that were geocoded, 4,567 loans (93.3 percent) were located within the bank's midtown and downtown delineations. Of these loans, only 7.7 percent, or 353 loans, were located in low- and moderate-income census tracts within the delineation. At last examination, the bank's penetration in low- and moderate-income areas was 8.4 percent for the period October 1, 1993 through May 31, 1995.

Based on 1990 census data, there are 29 tracts within the bank's delineated communities. Of these 29 census tracts, 8 census tracts (or 28 percent) are considered low- and moderate-income. A census tract is considered low- or moderate-income if the census tract's median income is 80 percent or less of the median family income of the relevant metropolitan statistical area.

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

No branches were opened or closed since the last examination.

CONCLUSIONS WITH RESPECT TO ASSESSMENT FACTORS AND CRITERIA THAT PERTAIN SOLELY TO THE CRA PROCESS, DEMOGRAPHICS, AND ECONOMIC FACTORS:

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.

Merchants' market areas encompass several distinct communities for which the bank uses different activities to ascertain community credit needs. The bank's ascertainment activities adequately identify its communities' credit needs. Most contacts are with groups representing interests of small and middle market businesses. Increased attention has been directed toward community development organizations which generally serve the needs of small and minority businesses. The board retained a consultant with CRA expertise to lend assistance.

Merchants' board significantly expanded its ascertainment efforts. Board involvement generally consists of review and approval of the bank's CRA Statement, the annual CRA Assessment and Plan and a geographic analysis of loan penetration. The board assigned direct responsibility for CRA compliance to its three member CRA Committee ("Committee").

Since the last examination, the CRA Committee recommended that the bank significantly and aggressively increase its CRA related activities by adopting specific goals. These activities should complement and enhance the institution's overall business strategy of tailoring loans and services for the specific needs of small and mid-sized business. The Committee believes that support of subsidized small business lending programs is the best way to achieve the bank's goals. Accordingly, the Committee has sought opportunities to make funds available for small business lending and also to contribute its banking expertise.

A series of specific contacts with organizations serving small business development needs within its assessment area were established. Some of these contacts included: Accion/New York, Regional Economic Development Assistance Corporation, Manhattan Neighborhood Renaissance Local Development Corporation, and Manhattan Borough Development Corporation.

As a result of recent ascertainment efforts, the bank will soon offer a new overdraft checking product designed to meet the needs of small business with revenues of \$1 million or less.

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 increased its involvement in the CRA process. Its involvement traditionally consisted of review and approval of Merchant's CRA Statement, and occasional discussions of CRA related issues. Now, board members directly participate in discussions with community-based organizations and various business interests.

The board assigned direct responsibility for CRA compliance to a CRA Committee ("Committee") consisting of three board members. The Committee maintains minutes of its meeting that are presented to the full board. This Committee discusses CRA and Merchants' efforts to comply with the Act's requirements. Board and Committee minutes contain discussions related to community development projects, the geographic distribution of Merchants' business loan portfolio, contacts with community organizations, and the results of regulatory examinations.

Merchants' annual CRA Plan includes a policy statement, an assessment of its previous year's community development activities and other efforts, and its goals for the coming year. The 1996 CRA Plan's goals focused on implementing appropriate changes to Merchant's CRA program in accordance with the revised CRA regulation. The Plan includes a two year goal of \$2 million in community development lending and a 1996 goal of \$600 thousand. The stated goals include activities designed to develop, improve or enhance activities for the local business community.

Management reported that board members have contributed to the bank's loan originations through their referral of potential borrowers.

The board continues to use guidelines it established prior to this examination regarding the types of community development loans and grants the bank should seek. These guidelines emphasize business lending due to the nature of the bank's business strategy and indicate that non-profit organizations supporting economic development, job training, employment and education within the bank's delineation should receive priority when allocating grants.

II. MARKETING

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.

As previously mentioned, Merchants' primary market is small- and middle-market businesses. Historically, the bank has limited advertising or promotional initiatives to increase awareness of the availability of the bank's credit products.

Marketing efforts are primarily designed to promote the image of Merchants as a provider of banking products and services to middle market businesses. As a result, all segments of Merchants' local community may not be fully aware of financial products and services offered by the bank. Management stated that the bank's print advertising is essentially done to support an organization or publication seeking revenue, and not necessarily to solicit new business for Merchants Bank. Advertising expenses represent less than one quarter of one percent of revenues.

Merchants has a "call" program in place which serves as a method of disseminating information regarding the bank's credit products to the business community and to community based organizations.

Marketing and advertising programs have limited oversight by senior management and the board of directors. Marketing campaigns are infrequently reviewed for their effectiveness in informing all segments of Merchants' local community.

Broadcast Advertising

Merchants uses all-news radio for broadcast advertisements. According to management, bank advertisements have been on WINS since 1965 and currently run three times daily. WCBS has carried the bank's advertisements since 1974 and now runs two daily advertisements. WBBR has been running Merchants' advertisements for two years and is currently broadcasting six advertisements daily. Broadcast advertisements stress the institution's commercial credit products and are directed toward middle market business concerns.

Print Advertising

Personal product oriented advertisements continue in The China Press (average daily circulation of approximately 40,000). Although management has stated that these efforts have yielded few new customers, the bank will continue to utilize this outlet. Advertisements placed in The China Press promote business, personal, and automobile loan products. In addition, the bank has placed Chinese language signs in the windows of its Chinatown branch which communicate the availability of personal and automobile loans.

The bank continues to place image advertisements in various organizations' journals including the Chinese-American Planning Council and Asian Americans for Equality. Merchants has historically listed

and continues to list credit, deposit, and other services on customer payroll envelopes as well as diamond and jewelry dealer merchandise envelopes.

III. COMMUNITY DEVELOPMENT

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.

As previously mentioned, Merchant's headquarters is located in Manhattan, which is part of MSA 5600.

As of March 31, 1996, the bank's assets totaled \$993 million. The institution had deposits of \$769 million and total loans of \$250 million or 25 percent of assets. The bulk of the bank's assets (68 percent) are invested in debt instruments issued by the U.S. Government, U.S. Government Agencies, States and municipal sub-divisions.

COMMUNITY PROFILE

As discussed under Section II (Reasonableness of Delineated Community), Merchants delineates two separate communities, the midtown and downtown communities. The two communities have different economic and racial characteristics.

Based on 1990 Census data from the U.S. Bureau of the Census, the bank's midtown area encompasses all or a significant portion of 19 census tracts. Of the 19 census tracts, 3 are low- and moderate-income, 2 middle income, and 14 high income. Several of these low- and moderate-income census tracts are located in largely high rent commercial areas with few residents. The area has a population of approximately 48 thousand with 3 thousand (6.3 percent) classified as low- or moderate-income. Twenty-four percent of the population is minority (7 percent Black, 11 percent Hispanic, and 6 percent Asian).

There are no minority census tracts in the Midtown delineation; a tract is classified as minority if more than 80 percent of the tract's population is minority.

The bank's downtown delineated community encompasses all or a significant portion of ten census tracts.

Of the ten census tracts, five are low- and moderate-income, one middle income, and four high income.

Four census tracts are classified as minority with Asians accounting for a significant percentage of the population. The total population in the downtown delineated community is approximately 50 thousand, of which 57 percent is Asian, 9 percent Hispanic and 3 percent Black. Seventy-eight percent of the population is classified as low- or moderate-income.

A review of the Census Bureau's 1990 New York County Business Patterns data regarding those industries on which Merchants most heavily concentrates, indicated that approximately 6 percent of New York County's workers are employed in the manufacturing and wholesale distribution of apparel and other textile products or the wholesale distribution of jewelry and precious stones. Ninety percent of the firms in these industries employ less than 50 workers. The Apparel Industry is the largest manufacturing sector in New York City; in addition, the Jewelry Industry employs over 12,500 people in New York City.

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.

None.

APPENDIX A
 SCOPE OF EXAMINATION

SCOPE OF EXAMINATION : FULL SCOPE EXAMINATION INCORPORATING TRADITIONAL GUIDELINES.			
TIME PERIOD REVIEWED	10/16/95 TO 6/4/96		
<u>FINANCIAL INSTITUTION</u> <u>The Merchants Bank of New York New York, NY</u>			<u>PRODUCTS REVIEWED</u> <u>Small Business Loans</u>
<u>LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION</u>			
<u>ASSESSMENT AREA</u>	<u>TYPE OF EXAMINATION</u>	<u>BRANCHES VISITED</u>	<u>OTHER INFORMATION</u>
<u>MSA 5600 (New York, NY)</u>	<u>On-site</u>	<u>4</u>	<u>Loan products are offered in all areas</u>