

PUBLIC DISCLOSURE

April 13, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Arab American Bank
02-36-5490**

**52 East 52nd Street
New York, New York 10022**

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 CRA performance of **Arab American Bank** prepared by 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 **April 13, 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 228.25.*

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated **OUTSTANDING**.

Arab American Bank received designation as a wholesale bank by the Board of Governors on November 8, 1996. A "wholesale bank" designation permits the appropriate federal supervisor to take into account the special nature of the operations and business strategies of this type of institution in assessing its performance under the CRA. A bank is designated a wholesale bank if it does not engage in the business of extending home mortgages, small business, small farm, or consumer loans to retail customers. Wholesale banks are evaluated under the community development test that focuses on the bank's record of helping to meet the credit needs of its assessment area through community development lending, qualified investments, or community development services.

Over the examination period of May 6, 1996, through April 13, 1998, Arab American Bank's performance with regard to CRA is rated outstanding. This determination is based on the following performance criteria: (1) a high level of community development loans and qualified investments; and (2) the use of loan and investment products that are responsive to the community and economic development needs in the bank's assessment area.

DESCRIPTION OF INSTITUTION:

Arab American Bank ("AAB") is a wholesale commercial bank with 21 institutional shareholders located in the U.S., Europe, the Middle East and North Africa. It is a New York State-chartered bank and a member of the Federal Reserve System and the Federal Deposit Insurance Corporation. The bank's main office is located at 42 East 52nd Street in New York City, and AAB operates one branch in Georgetown, Grand Cayman Island, and one representative office in Cairo, Egypt.

As of December 31, 1997, AAB reported total assets of \$595 million, deposits of \$409 million (94 percent in the foreign office) and loans of \$222 million (43 percent to foreign interests).

AAB is not in the business of making home mortgage, home equity, consumer or small business loans. Instead, the bank is engaged in trade finance, specialized correspondent banking, and financial and investment advisory services principally for middle market companies involved in commerce between the U.S. and the Middle East and North Africa ("MENA"). AAB provides export and import letters of credit, loans and other extensions of credit such as deferred payments under letters of credit, acceptance financing, stand-by letters of credit, payment reimbursements, and documentary and clean collections. The bank also provides specialized investment management services, such as corporate foreign exchange, cash management and portfolio management.

Various U.S. government agencies such as the Export-Import Bank ("Eximbank"), Commodity Credit Corporation ("CCC") and the Agency for International Development ("AID") recognize AAB as a facilitator in the export of goods and services worldwide, with particular emphasis on its niche markets. AAB is also known by the World Bank and its affiliates for its expertise in the MENA region.

DESCRIPTION OF ASSESSMENT AREA:

For CRA purposes, AAB has designated the five counties that make up New York City, located within MSA 5600, as its assessment area. See page BB6 for demographic information of New York City.

CONCLUSIONS WITH RESPECT TO PERFORMANCE:

AAB's outstanding rating is based on a favorable assessment of the performance criteria for wholesale banks. This evaluation considers the following: (1) the level of community development loans, community development services or qualified investments, particularly investments not routinely provided by private investors; (2) use of innovative or complex qualified investments, community development loans, or community development services; and (3) responsiveness to credit and community development needs in its assessment area.

AAB has achieved a high level of community development loans and qualified investments by participating (mainly on an indirect basis), in certain innovative or complex community development loans and qualified investments that are responsive to two of the assessment area's major needs: affordable housing and small business financing.

Since the bank does not provide products or services that directly serve community needs, AAB addresses the credit needs of its community through financial intermediaries. The intermediaries provide financing for affordable housing primarily serving low- and moderate-income ("LMI") families in New York City. In addition, through indirect investment activity, the bank helps to meet the needs of small business within its assessment area.

For the examination period, community development activity totaled approximately \$5.1 million, which includes loan commitments, deposits, investments and grants. AAB participates in the following community development activities:

Community Development Loans

The bank's principal involvement in community development projects is through participation in the Global Resources for Affordable Neighborhood Development, Inc. ("Grand") program. Grand is a nonprofit sole purpose corporation organized by the New York Housing Partnership ("NYCHP") to provide financing for the construction of housing for LMI families in New York City.

Under the Grand program, a consortium of foreign and wholesale banks participate in financing a 49 percent share of private construction loans for projects developed by NYCHP. Providing the remaining 51 percent of the financing, local lenders originate and service the loans. The State of New York Mortgage Agency ("SONYMA") insured 75 percent of the financing provided by the bank consortium. Bankers Trust Company acts as the agent for the consortium.

AAB is one of the original lenders in the Grand Phase I Program. During the examination period AAB participated in two Grand programs (Phase II and III), with total commitments of \$6 million which were initially considered at the prior examination. As of the current examination date, March 13, 1998, AAB's remaining commitment had been reduced to \$3.7 million.

Qualified Investments

The bank continues to maintain a \$100 thousand certificate of deposit with a community development bank chartered to provide capital for small business and affordable housing development in New York City's LMI neighborhoods.

AAB's investment portfolio includes five Small Business Administration ("SBA") loan certificates, purchased through the secondary market, and currently valued at \$1.249 million. During the examination period, AAB purchased one certificate currently valued at \$403 thousand. The five underlying loans were made to qualified small business establishments located in the New York City area.

In addition, the bank made grants totaling \$26 thousand to six nonprofit community development organizations during the examination period.

PERFORMANCE CONTEXT

MSA 5600 (NEW YORK, NY)

In addition to the performance context information discussed in the "Description of the Institution" section on page BB3, a profile of AAB's local community follows:

Income Characteristics

The U.S. Department of Housing and Urban Development's ("HUD") estimated median family income is \$49,800 as of January 1, 1998. There are 2,216 census tracts in New York City of which 799 or 36 percent are classified as LMI.

Housing Characteristics

Based on July 1997 data provided by the U.S. Census Bureau, the population of the five boroughs of New York City totaled 7.3 million. The New York City Department of Housing placed the number of housing units at 2,995,000 in 1996. Rental units totaled 68 percent or 2,027,000 of the total units. Vacant units available for rent totaled 81 thousand, and vacant units available for sale numbered 24 thousand. Total available vacant units comprise 3.5 percent of total housing stock, reflecting a very tight housing market in the city.

The market conditions create upward pressure on rents which adversely affects LMI communities relying heavily on this type of housing. Between 1993 and 1995 the proportion of low-rent units declined, and units with gross rents of below \$400 and units renting between \$400-\$600, declined by 3 percent and 2 percent, respectively. These factors underscore the continued need for affordable housing in New York City.

Labor, Employment, and Economic Characteristics

Based on data from the New York State Department of Labor, the New York City economy is apparently beginning to benefit from the general improvement in the state and national economy. The unemployment level, however, continues to remain significantly above the statewide rate. Between March 1997 and March 1998, New York City's unemployment rate was 9 percent, which is a decline of 1.2 percent. The statewide rate was 7 percent, representing a decline of .5 percent.

For the prior three-year period (March 1994-March 1997), the New York City unemployment rate rose by 2.5 percent. During the most recent year, the number of jobs has increased by 59,300, or 1.7 percent. The financial and health service sectors as well as the construction and retail trades industry experienced the strongest job creation. The gains were somewhat offset by job declines in banking, government and manufacturing. While the overall trend is positive for the city as a whole, it has not generally benefitted the LMI residents. According to an analysis in the December 1997 edition of "Current Issues" published by the Federal Reserve Bank of New York, "Virtually all new jobs in the city are being filled by people who reside outside the five boroughs."

The major occupations in the city are managerial and professional, and administrative support including clerical support, services and sales. Industry types range from retail sole proprietorships to large multinational companies. The products and services of these companies encompass the industries of professional services, health care, transportation, government, finance, insurance, real estate, retail trade, and manufacturing. The highest employment concentrations are found in the service sector and in financial services, insurance, and real estate. The retail sector also serves as a significant employer.

CRA APPENDIX A

SCOPE OF EXAMINATION			
TIME PERIOD REVIEWED	5/6/96 TO 2/28/98		
FINANCIAL INSTITUTION Arab American Bank New York, N.Y.			PRODUCTS REVIEWED Community Development <ul style="list-style-type: none"> • Loans • Investment • Grants
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
New York State MSA 5600 (portions thereof) <ul style="list-style-type: none"> • Bronx County • Kings County • New York County • Queens County • Richmond County 	On - site	N/A	

CRA APPENDIX B

GLOSSARY

AREA MEDIAN INCOME: (1) The median family income for the MSA, if a person or geography (block numbering area or census tract) is located in an MSA; or (2), if a person or geography (census tract or block numbering area) is located outside an MSA, the statewide non-metropolitan median family income.

COMMUNITY DEVELOPMENT: (1) Affordable housing including multifamily rental housing for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of 13 CFR 121.802 (a)(2) or have gross annual revenues of \$1 million or less; or (4) activities that revitalize or stabilize low- or moderate-income geographies.

CONSUMER LOANS: Loans made to one or more individuals for household, family, or other personal expenditures.

LMI: Low- and moderate-income, as in LMI census tracts or LMI families.

LOW INCOME: An individual income that is less than 50 percent of the area median income (i.e., of the median family income for the MSA, if the individual is located in an MSA, or, if the individual is located outside an MSA, of the statewide non-metropolitan median family income), or a BNA or census tract median family income that is less than 50 percent of the area median income. Accordingly, a low-income census tract is one in which the median family income is less than 50 percent of the area median income.

MIDDLE INCOME: An individual income that is at least 80 percent and less than 120 percent of the area median income, or a BNA or census tract median family income that is at least 80 percent and less than 120 percent of the area median income.

MODERATE INCOME: An individual income that is at least 50 percent and less than 80 percent of the area median income, or a BNA or census tract median family income that is at least 50 percent and less than 80 percent of the area median income.

MSA: A metropolitan statistical area or a primary metropolitan statistical area as defined by the director of the Office of Management and Budget.

SBA: Small Business Administration

SMALL BUSINESS LOANS: Such loans are defined in Regulation BB, Section 228.12 (u) with reference to the definition of such loans in the instructions for preparation of the Consolidated Report of Condition and Income. These instructions define small business loans as loans (for commercial and industrial purposes) with original amounts of \$1 million or less that have been reported in Schedule RC-C, Part 1, (1.e)(4) of the report.

UPPER INCOME: An individual income that is 120 percent or more of the median family income in an MSA or a census tract in which the median family income is 120 percent or more of the median family income in an MSA.