

PUBLIC DISCLOSURE

October 10, 2006

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Gotham Bank of New York
RSSD No. 239015**

**1412 Broadway
New York, New York 10018**

FEDERAL RESERVE BANK OF NEW YORK

**33 LIBERTY STREET
NEW YORK, N.Y. 10045**

NOTE: This document is an evaluation of this 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. 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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INSTITUTION'S CRA RATING: Gotham Bank of New York is rated “**SATISFACTORY.**”

The following table indicates the performance level of the institution with respect to the lending and community development tests.

PERFORMANCE LEVELS	GOTHAM BANK OF NEW YORK PERFORMANCE TESTS	
	Lending Test	Community Development Test
Outstanding		X
Satisfactory	X	
Needs to Improve		
Substantial Noncompliance		

The overall satisfactory performance of Gotham Bank of New York (“Gotham”) with regard to the Community Reinvestment Act (“CRA”) is based on the following performance criteria:

- The bank’s loan-to-deposit ratio was reasonable.
- A majority of loans were made in the assessment area.
- The distribution of loans to businesses of different sizes was reasonable.
- The geographic distribution of loans reflects poor dispersion throughout the assessment area.
- The level of community development loans, qualified investments and community development services demonstrates excellent responsiveness to community development needs in the assessment area.

DESCRIPTION OF INSTITUTION

Established in 1980, Gotham is a retail commercial bank which operates a single office in midtown Manhattan. The bank is not part of a holding company or affiliated with any other financial institution.

Gotham's product lines and services to the public are limited. Gotham does not offer residential mortgage loans or other consumer financing. The bank primarily offers short-term secured and unsecured financing to small and mid-sized businesses. Lending activity remains concentrated to manufacturers, wholesalers, and importers in the garment, fur, carpet and jewelry industries.

As of June 30, 2006, the bank's total assets were \$231 million with total net loans and leases of \$115 million. Commercial loans represented \$90 million, or 78% of net loans and leases and commercial real estate loans represented \$25 million, or 22% of net loans and leases. Total domestic deposits were \$207 million. The bank has a .04% deposit market share in New York City as of June 30, 2006.

There are no financial or legal impediments preventing Gotham from meeting the credit needs of small businesses in its assessment area. Gotham's previous CRA examination was dated September 30, 2002, and the bank received an overall rating of "satisfactory" under the small bank examination procedures.

DESCRIPTION OF THE BANK'S ASSESSMENT AREA

Gotham's assessment area has not changed since the previous examination. The bank's assessment area is part of the New York-White Plains-Wayne, NY-NJ Metropolitan Division (MD 35644). It encompasses approximately the lower two-thirds of Manhattan, also known as New York County. The assessment area is bounded by 86th Street on the north to the East River and the Hudson River on the east and west.

The assessment area does not arbitrarily exclude low- or moderate-income ("LMI") geographies. A map illustrating Gotham's assessment area is on page BB12.

SCOPE OF EXAMINATION

Gotham was examined using the FFIEC CRA intermediate-small bank examination procedures. The intermediate-small bank examination procedures became effective August 1, 2005 and apply to banks with total assets of at least \$250 million as of December 31 of both of the prior two calendar years. Gotham's total assets exceeded \$250 million as of December 31, 2004 and 2005.

Small business loans were evaluated since there are no HMDA-related or consumer loans originated. The sample period covered from January 1, 2004 through June 30, 2006 for small

business loans, and included a sample of 171 small business loans. Loans for analysis were selected using the Board of Governors' sampling procedures and data was verified as part of the onsite exam. In addition, community development loans, qualified investments, and community development services were reviewed for the period July 1, 2002 through June 30, 2006.

Examiners also conducted interviews with two community development organizations in order to gain an understanding of local credit needs. One community contact focused on economic development as well as small business lending and housing counseling for LMI individuals while the other promoted affordable housing and home ownership counseling.

PERFORMANCE CONTEXT

The following demographic and economic information was obtained from publicly available sources that include the U.S. Department of Commerce's Bureau of Census, 2000, the U.S. Department of Labor, the U.S. Department of Housing and Urban Development ("HUD"), the National Association of Realtors, and the New York Association of Realtors.

Demographic Characteristics

According to the 2000 Census, the population of the bank's assessment area is 823,602. This total represents an increase of approximately 6% from the 1990 population level. The assessment area is part of MD 35644, which includes the metropolitan New York area. Gotham operates primarily in Manhattan, particularly in the area around its one office.

Income Characteristics

The HUD-adjusted median family income for MD 35644 was \$57,650 in 2005 and \$59,200 in 2006. These income levels are comparable to New York State's 2005 HUD-adjusted median family income of \$60,100. According to the 2000 census, 8% of the population in the bank's assessment area resides in low-income census tracts, 9% in moderate-income census tracts, 9% in middle-income census tracts, 73% in upper-income census tracts, and 1% of the census tracts had income that was not reported.

Housing Characteristics

Given the relatively lower levels of owner-occupancy in LMI census tracts, opportunities for homeownership are limited. The median annual sales price of existing single-family homes in MD 35644 was \$386,000 in 2004 and increased to \$445,000 in 2005. In the assessment area, rental units represent 69% of housing, with the vast majority of owner-occupied units, 91%, owned by upper-income persons. The Corcoran Report noted that the average selling price for all apartments in Manhattan for the third quarter of 2006 was \$1,236,000. Also, according to community contacts, the extreme high cost of housing in Manhattan creates a need for an affordable component in all new real estate construction.

Labor, Employment and Economic Characteristics

According to the Fall 2006 Federal Deposit Insurance Corporation (“FDIC”) New York State Profile, New York City reports the most rapid job growth rates in the state. As noted in the November 13, 2006, City of New York Monthly Report on Current Economic Conditions, New York City added 50,400 private sector jobs over the past twelve months, resulting in a growth of 1.6 percent year-over-year. Unemployment for MD 35644 has declined from 4.7% in December 2005 to 4.4% in September 2006. In addition, according to the bank and community contacts, New York City has a high concentration of employment in the needle trades (cutting and sewing fabrics), which is the one of the bank’s principle borrowing industries.

Exhibit 1 on the following page contains additional demographic details for the bank’s assessment area.

Exhibit 1

Assessment Area Demographics

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	13	8.0	16,615	10.9	5,555	33.4	26,415	17.3
Moderate-income	15	9.2	15,317	10.0	3,600	23.5	14,214	9.3
Middle-income	14	8.6	11,258	7.4	1,620	14.4	16,427	10.8
Upper-income	119	73.0	109,456	71.7	3,426	3.1	95,590	62.6
Unknown-income	2	1.2	0	0.0	0	0.0	0	0.0
Total Assessment Area	163	100.0	152,646	100.0	14,201	9.3	152,646	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	26,872	1,484	1.3	5.5	24,438	90.9	950	3.5
Moderate-income	33,952	3,794	3.3	11.2	28,411	83.7	1,747	5.1
Middle-income	43,053	5,254	4.5	12.2	35,103	81.5	2,696	6.3
Upper-income	390,740	105,482	90.9	27.0	251,073	64.3	34,185	8.7
Unknown-income	48	0	0.0	0.0	25	52.1	23	47.9
Total Assessment Area	494,665	116,014	100.0	23.5	339,050	68.5	39,601	8.0
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	3,089	2.8	2,672	3.2	206	1.0	211	4.7
Moderate-income	4,036	3.7	3,271	3.9	523	2.6	242	5.4
Middle-income	8,011	7.4	6,194	7.4	1,451	7.2	366	8.2
Upper-income	90,959	83.9	70,185	83.6	17,178	85.6	3,596	80.1
Unknown-income	2,371	2.2	1,594	1.9	705	3.5	72	1.6
Total Assessment Area	108,466	100.0	83,916	100.0	20,063	100.0	4,487	100.0
	Percentage of Total Businesses:			77.4		18.5		4.1

Based on 2000 Census Information.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Gotham's overall record of meeting the credit needs of its assessment area through its lending performance is rated satisfactory. Gotham originated a majority of its loans within its assessment area and its loan-to-deposit ratio was reasonable. The overall distribution of its loans to businesses of different sizes was also reasonable. The geographic distribution of loans reflects poor penetration throughout the bank's assessment area.

Loan-to-Deposit Ratio

Gotham's loan-to-deposit ratio was reasonable given the bank's size, financial condition, and the credit needs of its assessment area. The bank's average loan-to-deposit ratio for the sixteen most recent quarters ending June 30, 2006, was 49%, based on information contained in its *Consolidated Report of Condition and Income*. This ratio was below the national peer average of 82% for similarly sized banks, but somewhat below an average of 64% for four similarly sized banks located in a similar geographic area of New York State. The bank's average loan-to-deposit ratio also represents a slight improvement since the last examination.

Lending in Assessment Area

Gotham originated a majority of its loans in its assessment area. Overall, 78% of the sampled small business loans were originated in the assessment area. Of the 171 small business loans sampled, 134 were extended to businesses and individuals located in the bank's assessment area.

Lending to Businesses of Different Sizes

Lending to businesses with gross annual revenues ("GAR") of \$1 million or less was reasonable. As shown in Exhibit 2, Gotham extended only 29% of its loans to businesses with GAR of \$1 million or less. In comparison, 77% of businesses in the assessment area have GAR of \$1 million or less. Lending to businesses with GAR of \$1 million or less is somewhat limited due to Gotham's lending strategy, which focuses on long-term relationships with known customers in a narrow range of industries. Many of these customers have grown beyond GAR of \$1 million as a result of their tenure and most operate in close proximity to the bank's one office.

In addition, approximately 69% of loans were in amounts of \$100,000 or less and the average loan size was \$115 thousand. Smaller loans amounts generally meet the credit needs of smaller businesses.

EXHIBIT 2					
Distribution of Loans by Size of Business					
January 1, 2004 – June 30, 2006					
Number of loans to businesses	Number of loans to <u>small</u> businesses*	% of loans to <u>small</u> businesses	\$ Amount of loans to businesses	\$ Amount of loans to <u>small</u> businesses*	% of \$ amount of loans to <u>small</u> businesses*
134	39	29%	\$15,473,000	\$3,214,000	21%

Geographic Distribution of Loans

The geographic distribution of the bank's small business loans was poor. No loans were originated in low and moderate-income census tracts. In comparison, 3% of the assessment area businesses are located in low-income census tracts and 4% are located in moderate-income census tracts. Gotham made approximately 80% of its loans within three-quarters of a mile of its office, with two census tracts close to the office accounting for 72% of total loans.

Response to Complaints

Gotham received no complaints relating to the bank's CRA performance and no complaints have been filed with the Federal Reserve Bank of New York since the previous examination.

COMMUNITY DEVELOPMENT TEST

Gotham's community development performance demonstrates excellent responsiveness to the community development needs of its assessment area through community development loans, qualified investments, and community development services, as appropriate. This assessment considers Gotham's capacity and the need and availability of such opportunities for community development in Gotham's assessment area.

This conclusion considers that Gotham very recently qualified as an intermediate-small bank as of January 1, 2006. Additionally, the category of intermediate-small bank was only created in September 2005 as part of the CRA regulation amendments. Accordingly, a minimal amount of time had passed before the bank was evaluated under the community development test criteria.

* Businesses with gross annual revenues of \$1 million or less.

Community Development Loans

Gotham originated \$7.9 million in community development loans representing 4 loans. Of this total, 88% provided community development services targeted to low and moderate-income individuals, 9% financed affordable housing, and 3% targeted economic development initiatives. Most of these loans focused on housing and services related to homeless families and individuals. These loans provide permanent and temporary housing as a result of the extremely high cost of housing in the assessment area.

Examples of the community development loans follow:

- A demand loan to acquire new properties and upgrade existing ones for use as homeless shelters.
- A term loan to provide funding for the expansion of a 100 room homeless shelter.
- A real estate mortgage loan financing a single room occupancy hotel for LMI individuals.
- A line of credit to the New York Business Economic Development Corporation of which Gotham is a member. The New York Business Economic Development Corporation is a privately owned and managed corporation that pools funds from banks, shareholders, and New York State to help diverse small business enterprises expand in New York State.

Qualified Investments

Gotham's qualified investments totaled \$100 thousand and consist of an \$80,520 Certificate of Deposit to a Community Development Bank, a \$10,000 donation to the American Red Cross for Hurricane Katrina, and approximately \$10,000 in donations for community development services targeted to LMI individuals.

Community Development Services

Gotham had a modest level of community development services. A senior loan officer acts as chairperson of a local food pantry for LMI individuals. The officer assists in raising money and provides financial expertise.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

No evidence of discriminatory or other illegal credit practices, including the Equal Credit Opportunity Act and the Fair Housing Act, was identified as being inconsistent with helping to meet community credit needs.

CRA APPENDIX A

GLOSSARY

Census tract: A small, relatively permanent statistical subdivision of a county or statistically equivalent entity delineated for data presentation purposes by a local group of census data users or the geographic staff of a regional census center in accordance with Census Bureau guidelines. Designed to be relatively homogeneous units with respect to population characteristics, economic status, and living conditions at the time they are established, census tracts generally contain between 1,000 and 8,000 people, with an optimum size of 4,000 people. Census tract boundaries are delineated with the intention of being stable over many decades, so they generally follow relatively permanent visible features. However, they may follow governmental unit boundaries and other invisible features in some instances; the boundary of a state or county (or statistically equivalent entity) is always a census tract boundary.

Community development: Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Family: A family is a group of two or more people related by birth, marriage, or adoption and residing together; all such people (including related subfamily members) are considered as members of one family.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (“HMDA”): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: A household consists of all the people who occupy a housing unit. A household includes the related family members and all the unrelated people, if any, such as lodgers, foster children, wards, or employees who share the housing unit. A person living alone in a housing unit, or a group of unrelated people sharing a housing unit such as partners or roomers, is also counted as a household. The count of households excludes group quarters.

Low-income: Individual income that is less than 50% of the area median income, or a median family income that is less than 50%, in the case of a geography.

Metropolitan Statistical Area (“MSA”): A geographic entity defined by the federal Office of Management and Budget for use by federal statistical agencies, based on the concept of a core area with a large population nucleus, plus adjacent communities having a high degree of economic and social integration with that core.

Metropolitan Division: A county or group of counties within a **Metropolitan Statistical Area** that contains a population of at least 2.5 million and represents an employment center(s) associated through commuting ties.

Middle-income: Individual income that is at least 80% and less than 120% of the area median income, or a median family income that is at least 80% and less than 120%, in the case of a geography.

Moderate-income: Individual income that is at least 50% and less than 80% of the area median income, or a median family income that is at least 50% and less than 80%, in the case of a geography.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share or grant that has as its primary purpose community development.

Small loan(s) to business(es): A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (“Call Report”) and the Thrift Financial Reporting (“TFR”) instructions. These loans have original amounts of \$1 million or less and typically are

either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Upper-income: Individual income that is more than 120% of the area median income, or a median family income that is more than 120%, in the case of a geography.

Gotham Bank

Assessment Area

January 1, 2004 - June 30, 2006

