

FEDERAL RESERVE SYSTEM

Cathay General Bancorp  
Los Angeles, California

Order Approving the Merger of Bank Holding Companies

Cathay General Bancorp (“Cathay Bancorp”), Los Angeles, California, has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”)<sup>1</sup> to merge with Asia Bancshares, Inc. (“Asia Bancshares”), and thereby indirectly acquire its subsidiary bank, Asia Bank, National Association (“Asia Bank”), both of Flushing, New York. Following the proposed acquisition, Asia Bank would be merged into Cathay Bancorp’s subsidiary bank, Cathay Bank, Los Angeles, a state nonmember bank.<sup>2</sup>

Notice of the proposals, affording interested persons an opportunity to submit comments, has been published (80 Federal Register 12629 (2015)).<sup>3</sup> The time for submitting comments has expired, and the Board has considered the proposal and all comments received in light of the factors set forth in section 3 of the BHC Act.

Cathay Bancorp, with consolidated assets of approximately \$11.9 billion, is the 104th largest insured depository organization in the United States, controlling approximately \$8.8 billion in deposits.<sup>4</sup> Cathay Bancorp controls Cathay Bank, which

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<sup>1</sup> 12 U.S.C. § 1842.

<sup>2</sup> The merger of Asia Bank into Cathay Bank is subject to the approval of the Federal Deposit Insurance Corporation (“FDIC”) pursuant to section 18(c) of the Federal Deposit Insurance Act (“Bank Merger Act”). 12 U.S.C. § 1828(c). The FDIC approved the bank merger on June 23, 2015.

<sup>3</sup> 12 CFR 262.3(b).

<sup>4</sup> Asset data are as of March 31, 2015, and nationwide deposit-ranking data are as of December 31, 2014, unless otherwise noted.

operates in California, Illinois, Massachusetts, Nevada, New Jersey, New York, Texas, and Washington. Cathay Bank is the 63rd largest depository institution in New York, controlling deposits of approximately \$851 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.<sup>5</sup>

Asia Bancshares, with consolidated assets of approximately \$533 million, is the 1,273rd largest insured depository organization in the United States, controlling approximately \$453 million in deposits. Asia Bancshares controls Asia Bank, which operates in New York and Maryland. Asia Bank is the 109th largest insured depository institution in New York, controlling deposits of approximately \$361 million, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Cathay Bancorp would become the 102nd largest depository organization in the United States, with consolidated assets of approximately \$12.4 billion, which represent less than 1 percent of the total assets of insured depository institutions in the United States. Cathay Bancorp would control total deposits of approximately \$9.2 billion, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. In New York, Cathay Bancorp would become the 58th largest depository organization, controlling deposits of approximately \$1.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

#### Interstate and Deposit Cap Analysis

Section 3(d) of the BHC Act generally provides that, if certain conditions are met, the Board may approve an application by a bank holding company to acquire control of a bank in a state other than the home state of the bank holding company

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<sup>5</sup> State deposit data are as of June 30, 2014, unless otherwise noted. In this context, insured depository institutions include commercial banks, savings banks, and savings associations.

without regard to whether the transaction is prohibited under state law.<sup>6</sup> Under this section, the Board may not approve an application that would permit an out-of-state bank holding company to acquire a bank in a host state if the bank has not been in existence for the lesser of the state statutory minimum period of time or five years.<sup>7</sup> In addition, the Board may not approve an interstate acquisition if the bank holding company controls or would control more than 10 percent of the total deposits of insured depository institutions in the United States, or 30 percent or more of the total deposits of insured depository institutions in the target bank's home state or in any state in which the acquirer and target have overlapping banking operations.<sup>8</sup>

For purposes of the BHC Act, Cathay Bancorp's home state is California, and Asia Bancshares' home state is New York.<sup>9</sup> Asia Bank is also located in Maryland. Cathay Bancorp is well capitalized and well managed under applicable law and has a satisfactory Community Reinvestment Act rating.<sup>10</sup> New York and Maryland do not have a minimum age requirement applicable to the proposal,<sup>11</sup> and Asia Bank has been in existence for more than five years.

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<sup>6</sup> 12 U.S.C. § 1842(d)(1)(A).

<sup>7</sup> 12 U.S.C. § 1842(d)(1)(B).

<sup>8</sup> 12 U.S.C. § 1842(d)(2)(A) and (B). The acquiring and target institutions have overlapping banking operations in any state in which any bank to be acquired is located and the acquiring bank holding company controls any insured depository institution or a branch. For purposes of section 3(d) of the BHC Act, the Board considers a bank to be located in the states in which the bank is chartered or headquartered or operates a branch. See 12 U.S.C. § 1841(o)(4)–(7).

<sup>9</sup> See 12 U.S.C. § 1841(o)(4). A bank holding company's home state is the state in which the total deposits of all banking subsidiaries of such company were the largest on July 1, 1966, or the date on which the company became a bank holding company, whichever is later. A national bank's home state is the state in which the main office of the bank is located.

<sup>10</sup> 12 U.S.C. § 2901 *et seq.*

<sup>11</sup> MD. CODE, FIN. INST. § 5-901 *et seq.*; N.Y. BANKING LAW §§ 142-a.1; 143-b.

On consummation of the proposed transaction, Cathay Bancorp would control less than 1 percent of the total amount of consolidated deposits in insured depository institutions in the United States. In addition, the combined organization would control less than 1 percent of the total amount of deposits of insured depository institutions in Asia Bancshares' home state of New York, the only state in which Cathay Bancorp and Asia Bancshares have overlapping banking operations. Accordingly, in light of all the facts of record, the Board is not prohibited from approving the proposal under section 3(d) of the BHC Act.

#### Competitive Considerations

Section 3 of the BHC Act prohibits the Board from approving a proposal that would result in a monopoly or would be in furtherance of an attempt to monopolize the business of banking in any relevant market. The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition in any relevant banking market, unless the anticompetitive effects of the proposal are clearly outweighed in the public interest by the probable effect of the proposal in meeting the convenience and needs of the community to be served.<sup>12</sup>

Cathay Bancorp and Asia Bancshares have subsidiary depository institutions that compete directly in the Metro New York City banking market ("New York market").<sup>13</sup> The Board has considered the competitive effects of the proposal in this banking market in light of all the facts of record. In particular, the Board has considered the number of competitors that would remain in the banking market; the relative share of total deposits in insured depository institutions in the market ("market

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<sup>12</sup> 12 U.S.C. § 1842(c)(1).

<sup>13</sup> The New York market includes Bronx, Dutchess, Kings, Nassau, New York, Orange, Putnam, Queens, Richmond, Rockland, Suffolk, Sullivan, Ulster, and Westchester counties and portions of Columbia and Greene counties in New York; Bergen, Essex, Hudson, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Passaic, Somerset, Sussex, and Union counties and portions of Burlington, Mercer, and Warren counties in New Jersey; Pike County and portions of Monroe and Wayne counties in Pennsylvania; and Fairfield County and portions of Litchfield and New Haven counties in Connecticut.

deposits”) that Cathay Bancorp would control;<sup>14</sup> the concentration levels of market deposits and the increase in that level as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);<sup>15</sup> and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and within the thresholds in the DOJ Bank Merger Guidelines for the New York market. On consummation of the proposal, the New York market would remain moderately concentrated, as measured by the HHI. The HHI change would be minimal, and numerous competitors would remain in the market.<sup>16</sup>

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<sup>14</sup> Deposit and market share data are as of June 30, 2014, and are based on calculations in which the deposits of thrift institutions are included at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors to commercial banks. *See, e.g., Midwest Financial Group*, 75 Federal Reserve Bulletin 386 (1989); *National City Corporation*, 70 Federal Reserve Bulletin 743 (1984). Thus, the Board regularly has included thrift deposits in the market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 Federal Reserve Bulletin 52 (1991).

<sup>15</sup> Under the DOJ Bank Merger Guidelines, a market is considered unconcentrated if the post-merger HHI is under 1000, moderately concentrated if the post-merger HHI is between 1000 and 1800, and highly concentrated if the post-merger HHI exceeds 1800. The Department of Justice (“DOJ”) has informed the Board that a bank merger or acquisition generally would not be challenged (in the absence of other factors indicating anticompetitive effects) unless the post-merger HHI is at least 1800 and the merger increases the HHI by more than 200 points. Although the DOJ and the Federal Trade Commission issued revised Horizontal Merger Guidelines in 2010, the DOJ has confirmed that its Bank Merger Guidelines, which were issued in 1995, were not modified. *See* Press Release, Department of Justice (August 19, 2010), [www.justice.gov/opa/pr/2010/August/10-at-938.html](http://www.justice.gov/opa/pr/2010/August/10-at-938.html).

<sup>16</sup> Cathay Bancorp operates the 61st largest depository institution in the New York market, controlling approximately \$890 million in deposits, which represent less than 1 percent of market deposits. Asia Bancshares operates the 122nd largest depository institution in the same market, controlling deposits of approximately \$361 million, which represent less than 1 percent of market deposits. On consummation of the proposed transaction, Cathay Bancorp would become the 57th largest depository institution in the market, controlling deposits of approximately \$1.3 billion, which represent less than 1 percent of market deposits. The HHI for the New York market would increase by less than 1 point to a level of 1370, and 249 competitors would remain in the market.

The DOJ has advised the Board that consummation of the proposal would not likely have a significantly adverse effect on competition in any relevant banking market. In addition, the appropriate banking agencies have been afforded an opportunity to comment and have not objected to the proposal.

Based on all of the facts of record, the Board concludes that consummation of the proposal would not have a significantly adverse effect on competition or on the concentration of resources in the New York market or in any other relevant banking market. Accordingly, the Board determines that competitive considerations are consistent with approval.

#### Financial, Managerial, and Other Supervisory Considerations

In reviewing a proposal under the BHC Act, the Board considers the financial and managerial resources and the future prospects of the institutions involved. In its evaluation of financial factors, the Board reviews the financial condition of the organizations involved on both parent-only and consolidated bases, as well as the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information, including capital adequacy, asset quality, and earnings performance. The Board evaluates the financial condition of the combined organization, including its capital position, asset quality, liquidity, earnings prospects, and the impact of the proposed funding of the transaction. The Board also considers the ability of the organization to absorb the costs of the proposal and the proposed integration of the operations of the institutions. In assessing financial factors, the Board considers capital adequacy to be especially important. The Board considers the future prospects of the organizations involved in the proposal in light of their financial and managerial resources and the proposed business plan.

Cathay Bancorp and Cathay Bank are both well capitalized and would remain so on consummation of the proposal. The proposed transaction is a bank holding company merger that is structured as a cash and share exchange, with a subsequent

merger of the subsidiary depository institutions.<sup>17</sup> The asset quality, earnings, and liquidity of Cathay Bank and Asia Bank are consistent with approval, and Cathay Bancorp appears to have adequate resources to absorb the costs of the proposal and to complete integration of the institutions' operations. In addition, future prospects are considered consistent with approval. Based on its review of the record, the Board finds that the Cathay Bancorp organization has sufficient financial resources to effect the proposal.

The Board also has considered the managerial resources of the organizations involved and of the proposed combined organization. The Board has reviewed the examination records of Cathay Bancorp, Asia Bancshares, and their subsidiary depository institutions, including assessments of their management, risk-management systems, and operations. In addition, the Board has considered information provided by Cathay Bancorp, the Board's supervisory experiences with Cathay Bancorp and Asia Bancshares and those of other relevant bank supervisory agencies with the organizations, and the organizations' records of compliance with applicable banking, consumer protection, and anti-money-laundering laws.

Cathay Bancorp, Asia Bancshares, and their subsidiary depository institutions are each considered to be well managed. Cathay Bancorp's existing risk-management program and its directorate and senior management are considered to be satisfactory. The directors and senior executive officers of Cathay Bancorp have substantial knowledge of and experience in the banking and financial services sectors.

The Board also has considered Cathay Bancorp's plans for implementing the proposal. Cathay Bancorp is devoting significant financial and other resources to address all aspects of the post-acquisition integration process for this proposal. Cathay Bancorp would implement its risk-management policies, procedures, and controls at the

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<sup>17</sup> As part of the proposed transaction, each share of Asia Bancshares common stock would be converted into a right to receive cash or Cathay Bancorp common stock based on a fixed exchange ratio, or a combination of the two. Cathay Bancorp has the financial resources to fund the acquisition.

combined organization, and these are considered acceptable from a supervisory perspective. In addition, Cathay Bancorp's and Asia Bancshares' management has the experience and resources to ensure that the combined organization operates in a safe and sound manner, and Cathay Bancorp plans to integrate Asia Bancshares' existing management and personnel in a manner that augments Cathay Bancorp's management.

Based on all the facts of record, including Cathay Bancorp's supervisory record, managerial and operational resources, and plans for operating the combined institution after consummation, the Board concludes that considerations relating to the financial and managerial resources and future prospects of the organizations involved in the proposal, as well as the records of effectiveness of Cathay Bancorp and Asia Bancshares in combatting money-laundering activities, are consistent with approval.

#### Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board considers the effects of the proposal on the convenience and needs of the communities to be served. In its evaluation of the effect of the proposal on the convenience and needs of the communities to be served, the Board considers whether the relevant institutions are helping to meet the credit needs of the communities they serve and whether the proposal would result in public benefits. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act ("CRA").<sup>18</sup> In addition, the Board considers the banks' overall compliance record, recent fair lending examinations and other supervisory assessments; the supervisory views of examiners; other supervisory information; and comments received on the proposal. The Board may also consider the institution's business model, its marketing and outreach plans, the organization's plans following consummation, and any other information the Board deems relevant.

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<sup>18</sup> 12 U.S.C. § 1842(c)(2); 12 U.S.C. § 2901 et seq.



The CRA requires the federal financial supervisory agencies to encourage insured depository institutions to help meet the credit needs of the local communities in which they operate, consistent with their safe and sound operation,<sup>19</sup> and requires the appropriate federal financial supervisory agency to assess a depository institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income ("LMI") neighborhoods.<sup>20</sup> In addition, fair lending laws require all lending institutions to provide applicants with equal access to credit, regardless of their race, ethnicity, or certain other characteristics.

The Board received a comment from a commenter who objected to the proposal principally on the basis of Cathay Bank's record of extending home mortgage credit to LMI and minority individuals, particularly African Americans, in the New York-Wayne-White Plains, New York-New Jersey Metropolitan Division ("New York City MSA"), as reflected in data reported under the Home Mortgage Disclosure Act ("HMDA")<sup>21</sup> for 2013. In addition, the commenter criticized Cathay Bank for denying eight of the nine residential mortgage applications received from LMI individuals in 2013.<sup>22</sup> The FDIC received and considered the same adverse comment in connection with its review of the underlying bank merger application.

The Board is concerned when HMDA data reflect disparities in the rates of loan applications, originations, and denials among members of different racial or ethnic groups in local areas. These types of disparities may indicate weaknesses in the adequacy of policies and programs at an institution for meeting its obligations to extend credit fairly. However, other information critical to an institution's credit decisions is not

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<sup>19</sup> 12 U.S.C. § 2901(b).

<sup>20</sup> 12 U.S.C. § 2903.

<sup>21</sup> 12 U.S.C. § 2801 *et seq.*

<sup>22</sup> The commenter also expressed concern that Cathay Bank would close branches in the New York City MSA following consummation of the transaction. Cathay Bancorp maintained that it does not intend to close any branches in the New York City MSA after consummation of the merger.

available from HMDA data.<sup>23</sup> Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

In assessing the convenience and needs factor in this case, the Board has considered all the facts of record, including reports of examination of the CRA performance of Cathay Bank and Asia Bank, the fair lending and compliance records of both banks, the supervisory views of the FDIC and the Consumer Financial Protection Bureau (“CFPB”), confidential supervisory information, information provided by Cathay Bancorp, and the public comment received on the proposal.

*Cathay Bank’s Business and Response to Comment*

Cathay Bank does not have a large residential mortgage loan operation. Residential mortgage loans represented approximately 20 percent and 22 percent of the bank’s overall lending portfolio in 2013 and 2014, respectively. Rather, the bank engages primarily in nonresidential real estate and commercial and industrial lending, which represented in the aggregate approximately 67 percent and 70 percent of the bank’s overall lending portfolio in 2013 and 2014, respectively. The remainder of the bank’s lending portfolio consists of other types of loans, such as residential and commercial construction loans, automobile loans, and consumer loans. The majority of Cathay Bank’s operations are located in California. Cathay Bank operates 10 branches in the New York City MSA, which accounted for approximately 2 percent of the bank’s overall lending portfolio in 2014. The bank received only 690 residential mortgage applications in the New York City MSA in 2013 and only 479 in 2014.

Cathay Bancorp argued that the very low percentage of owner-occupied housing by LMI individuals in the New York City MSA, Cathay Bank’s small residential mortgage operation, and Cathay Bank’s limited presence in the New York market make originating mortgage loans to LMI individuals and geographies particularly challenging.

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<sup>23</sup> Other data relevant to credit decisions could include credit history, debt-to-income ratios, and loan-to-value ratios. Accordingly, when conducting fair lending examinations, examiners analyze such additional information before reaching a determination regarding an institution’s compliance with fair lending laws.

Cathay Bancorp asserted that Cathay Bank is helping to meet the credit needs of LMI individuals and geographies in the New York City MSA in other ways. In particular, Cathay Bank offers products specifically targeted to LMI individuals, such as free or low-cost starter or second-chance bank accounts and access to financial education. In the New York City MSA, the bank also has substantial community development lending, services, and investments, many of which are aimed at assisting LMI individuals.

Cathay Bancorp asserted that the eight mortgage applications from LMI individuals in 2013 cited by the commenter were, in each case, denied solely on the basis of the applicant's creditworthiness, including debt-to-income ratios in excess of the bank's underwriting guidelines. Cathay Bancorp argued that all mortgage applications are reviewed in accordance with the bank's policies and procedures for underwriting and are subject to all of the bank's policies and procedures with respect to fair lending.

*Records of Performance Under the CRA*

As indicated above, in evaluating the convenience and needs factor and CRA performance, the Board considers substantial information in addition to information provided by public commenters and the response to comments by the applicant. In particular, the Board evaluates an institution's performance in light of examinations and other supervisory information provided by the appropriate federal supervisors.<sup>24</sup>

The CRA requires that the appropriate federal financial supervisor for a depository institution prepare a written evaluation of the institution's record of helping to meet the credit needs of its entire community, including LMI neighborhoods.<sup>25</sup> An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site evaluation by the institution's primary federal supervisor of the institution's overall record of lending in its communities.

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<sup>24</sup> See Interagency Questions and Answers Regarding Community Reinvestment, 75 Federal Register 11642, 11665 (2010).

<sup>25</sup> 12 U.S.C. § 2906.

In general, federal financial supervisors apply lending, investment, and service tests to evaluate the performance of a large insured depository institution in helping to meet the credit needs of the communities it serves. The lending test specifically evaluates the institution's home mortgage, small business, small farm, and community development lending to determine whether the institution is helping to meet the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's HMDA data in addition to small business, small farm, and community development loan data collected and reported under the CRA regulations to assess an institution's lending activities with respect to borrowers and geographies of different income levels. The institution's lending performance is based on the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; the geographic distribution of such loans—including the proportion and dispersion of the institution's lending in its assessment areas and the number and amount of loans in low-, moderate-, middle-, and upper-income geographies; the distribution of such loans based on borrower characteristics, including the number and amount of home mortgage loans to low-, moderate-, middle-, and upper-income individuals;<sup>26</sup> the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies. Consequently, the Board considers the overall CRA rating and the rating on the lending test to be important indicators, when taken into consideration with other factors, in determining whether a depository institution is helping to meet the credit needs of its communities.

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<sup>26</sup> Examiners also consider the number and amount of small business and small farm loans to businesses and farms with gross annual revenues of \$1 million or less, small business and small farm loans by loan amount at origination, and consumer loans, if applicable, to low-, moderate-, middle-, and upper-income individuals. See, e.g., 12 CFR 228.22(b)(3).

*CRA Performance of Cathay Bank*

Cathay Bank was assigned an overall “Satisfactory” rating by the FDIC at its most recent CRA performance evaluation, as of September 4, 2012 (“Cathay Bank Evaluation”).<sup>27</sup> Cathay Bank received a “High Satisfactory” rating for the Lending Test and “Low Satisfactory” ratings for the Investment Test and Service Test. Examiners found that Cathay Bank made a relatively high level of community development loans, that it had an adequate level of qualified investments, and that the bank provided an overall adequate level of community development services.

In evaluating the Lending Test overall, examiners found that Cathay Bank originated a substantial majority of its loans within its assessment areas and that the geographic distribution of its loans reflected a good penetration throughout the bank’s assessment areas. Examiners noted that the bank’s lending levels reflected a good responsiveness to the credit needs of the assessment areas. Examiners found that the bank’s distribution of borrowers reflected an adequate penetration among businesses of different revenue sizes and borrowers of different income levels, given the demographics of the bank’s assessment areas. Finally, examiners noted that the bank had an adequate

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<sup>27</sup> The Cathay Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed loans reportable under HMDA and CRA data collection requirements from January 1, 2010, through December 31, 2011. The evaluation period for community development loans, investments, and services was from July 1, 2010, through September 4, 2012. The Cathay Bank Evaluation included a full-scope review of six assessment areas: Los Angeles, California (Los Angeles-Long Beach-Glendale, CA Metropolitan Division (“MD”), Santa Ana-Anaheim-Irvine, CA MD, and Riverside-San Bernardino-Ontario, CA Metropolitan Statistical Area (“MSA”)); New York/New Jersey (Nassau-Suffolk, NY MD, New York-Wayne-White Plains, NY-NJ MD, Edison-New Brunswick, NJ MD, and Newark-Union, NJ MD); Seattle, Washington (Seattle-Bellevue-Everett, WA MD); Chicago, Illinois (Chicago-Naperville-Joliet, IL MD); Houston, Texas (Houston-Baytown-Sugar Land, TX MSA); and Boston, Massachusetts (Boston-Quincy, MA MD, Cambridge-Newton-Framingham, MA MD, and Peabody, MA MD). Greater emphasis was given to the bank’s Los Angeles assessment area due to the predominance of performance in this area. Examiners placed equal weight on the bank’s small business and residential lending performance.

record of serving the credit needs of the most economically disadvantaged areas in its assessment areas, LMI individuals, and very small businesses.

In evaluating the Lending Test in the bank's New York/New Jersey assessment area, examiners noted that Cathay Bank made a relatively high level of community development loans, and the bank's levels of lending reflected an adequate responsiveness to credit needs. The geographic distribution of the bank's loans reflected an overall good dispersion throughout the assessment area, and the distribution of loans by borrower income reflected adequate penetration among individuals of different income levels and businesses of different revenue sizes. In its New York/New Jersey assessment area, the bank also exhibited an adequate record of serving the credit needs of the most economically disadvantaged, including borrowers within low-income census tracts, low-income individuals, and very small businesses.

In evaluating the Investment Test, examiners found Cathay Bank to have an adequate level of community development investments, reflecting an adequate responsiveness to credit and community economic development needs. Examiners noted that the bank made, or continued to hold, investments in Federal National Mortgage Association securities, equity investments in community development financial institutions, and an equity investment in a minority-owned financial institution, along with considerable investments in Low-Income Housing Tax Credit projects. Examiners also noted that the bank made occasional use of complex investments to support community development initiatives, including affordable housing, and that the bank made donations to various qualified community organizations that serve community development purposes.

In evaluating the Service Test, examiners found that the bank's overall accessibility of delivery systems, alternate delivery systems, banking products and services, and business hours within its assessment areas were reasonably accessible to all portions of the bank's assessment areas, including LMI individuals and geographies. Examiners noted that the bank provided direct lending products and participated with federal government agencies in various guarantee programs to help small business

owners who would not otherwise qualify for traditional credit. Examiners noted that Cathay Bank's directors, officers, and staff contributed time to qualified community development services during the review period, a majority of which were targeted toward LMI individuals or small businesses.

*CRA Performance of Asia Bank*

Asia Bank was assigned an overall "Satisfactory" rating at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of December 3, 2014 ("Asia Bank Evaluation").<sup>28</sup> The bank received "Satisfactory" ratings for the Lending Test<sup>29</sup> and Community Development Test.<sup>30</sup>

In evaluating the Lending Test, examiners found that a majority of Asia Bank's loans were made within its assessment areas. In the New York assessment area, examiners found that the bank's geographic distribution of loans, and the distribution of loans by business income and borrower income, were outstanding. In the Maryland assessment area, examiners found that the bank's geographic distribution of loans was

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<sup>28</sup> The Asia Bank Evaluation was conducted using Intermediate Small Bank CRA Examination Procedures. Examiners reviewed loans reportable under HMDA and small business loans for the period January 1, 2012, through September 30, 2014, with a primary focus on small business loans. The community development test included all eligible community development loans and qualified investments made, as well as services rendered, between November 7, 2011, and December 3, 2014. The Asia Bank Evaluation included a full-scope review of Asia Bank's New York and Maryland assessment areas. The New York ratings were given more weight than the Maryland ratings because the bank primarily conducts business in New York.

<sup>29</sup> The lending test applicable to intermediate small banks specifically evaluates the institution's loan-to-deposit ratio and other lending-related activities, such as loan originations for sale to the secondary markets, community development loans, or qualified investments; the percentage of loans and other lending-related activities located in the bank's assessment areas; the bank's record of lending to and engaging in other lending-related activities for borrowers of different income levels and businesses and farms of different sizes; the geographic distribution of the bank's loans; and the bank's record of taking action in response to written complaints about its performance in helping to meet credit needs in its assessment areas. See, e.g., 12 CFR 228.26(b).

<sup>30</sup> The commenter noted that Asia Bank received a "Low Satisfactory" rating on the Service Test at the bank's prior CRA performance evaluation as of November 7, 2011.

reasonable, and the distribution of loans by business income was excellent. Examiners also commented favorably on the bank's loan-to-deposit ratio.

In evaluating the Community Development Test, examiners found that Asia Bank demonstrated adequate responsiveness to community development needs in its assessment areas through community development loans, qualified investments, and community development services. In the New York assessment area, examiners found that Asia Bank demonstrated adequate responsiveness to the community's needs through its community development lending and services, and excellent responsiveness to the community's needs through its qualified investments. In the Maryland assessment area, examiners noted that the bank demonstrated adequate responsiveness to the community's needs through its qualified investments and community development services.

*Cathay Bancorp's Efforts since the Cathay Bank Evaluation*

Since the September 2012 Cathay Bank Evaluation, Cathay Bank has significantly increased its community development lending, investments, and services. Cathay Bank increased its community development lending by approximately 55 percent from 2013 to 2014, including loans and extensions of credit to support the construction of a senior center, a daycare center, and community facilities to help LMI individuals; to fund affordable housing for LMI individuals; and to support businesses located in LMI areas that employ LMI individuals. Cathay Bank's community development investments more than tripled from 2013 to 2014, the majority of which are in Low-Income Housing Tax Credits that support affordable housing. In addition, in 2013 Cathay Bank increased its existing investment in a minority-owned financial institution and in 2014 participated in the recapitalization of another minority-owned financial institution, assisting both institutions to continue their missions of serving underserved urban communities in California. Cathay Bank employees have also substantially increased the number of community development services from 2013 to 2014, including teaching financial literacy in LMI schools; volunteering at organizations that provide housing, education, and community development services to at-risk youth, the elderly, recent immigrants, and those who are not proficient in English; translating FDIC and Small Business



Administration (“SBA”) presentation materials into Chinese; and participating in Federal Reserve and FDIC CRA-based initiatives.

*Views of Other Regulators and FDIC Approval of Bank Merger*

The Board has considered the records of Cathay Bank and Asia Bank in complying with fair lending and other consumer protection laws. The FDIC and CFPB have each conducted consumer compliance examinations of Cathay Bank. The Board reviewed those examination reports and consulted with the FDIC and CFPB regarding Cathay Bank’s record of compliance with fair lending and other consumer protection laws and regulations and the bank’s policies and procedures to help ensure compliance with fair lending and other consumer protection laws and regulations. Cathay Bank intends to implement these policies and procedures across the combined organization following consummation of the transaction.

In addition, the Board considered the views of the FDIC regarding this proposal. The FDIC is the primary federal supervisor for Cathay Bank and reviewed the comment in connection with its consideration of the same convenience and needs factor in the underlying bank merger application.<sup>31</sup> Based on its review of all available information, the FDIC concluded that the convenience and needs factor in this case was consistent with approval, and the FDIC approved the merger of Asia Bank into Cathay Bank.<sup>32</sup>

*Public Benefits of the Proposal*

In assessing the effects of a proposal on the convenience and needs of the communities to be served, the Board also considers the extent to which the proposal would result in public benefits. In this regard, Cathay Bancorp has represented that the proposal would provide existing customers of the organizations with access to an expanded branch and ATM network and would offer additional products and services to

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<sup>31</sup> 12 U.S.C. § 1828(c)(5).

<sup>32</sup> Letter from Kathy L. Moe, Deputy Regional Director of FDIC San Francisco Regional Office, to Richard K. Kim, Wachtell, Lipton, Rosen & Katz (June 23, 2015).

Asia Bank's customers that are not currently offered by Asia Bank. These products and services include auto loans, credit and debit cards, unsecured personal loans, automated telephone banking, free online banking and bill pay, mobile banking, foreign currency accounts, wealth management services, safe deposit box services, merchant deposit capture, lockbox, business online banking and bill pay services, and SBA loans.

*Conclusion on Convenience and Needs Considerations*

The Board has considered all the facts of record, including the records of the relevant depository institutions involved under the CRA, the institutions' records of compliance with fair lending and other consumer protection laws, consultations with the FDIC and the CFPB, confidential supervisory information, information provided by Cathay Bancorp, and the public comment on the proposal. Based on that review, the Board concludes that the proposal would result in public benefits and that the convenience and needs factor is consistent with approval.

Financial Stability

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") amended section 3 of the BHC Act to require the Board to consider "the extent to which a proposed acquisition, merger, or consolidation would result in greater or more concentrated risk to the stability of the United States banking or financial system."<sup>33</sup>

To assess the likely effect of a proposed transaction on the stability of the U.S. banking or financial system, the Board considers a variety of metrics that capture the systemic "footprint" of the resulting firm and the incremental effect of the transaction on the systemic footprint of the acquiring firm. These metrics include measures of the size of the resulting firm, the availability of substitute providers for any critical products and services offered by the resulting firm, the interconnectedness of the resulting firm with the banking or financial system, the extent to which the resulting firm contributes to the

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<sup>33</sup> Section 604(d) of the Dodd-Frank Act, Pub. L. No. 111-203, 123 Stat. 1376, 1601, codified at 12 U.S.C. § 1842(c)(7).

complexity of the financial system, and the extent of the cross-border activities of the resulting firm.<sup>34</sup> These categories are not exhaustive, and additional categories could inform the Board's decision. In addition to these quantitative measures, the Board considers qualitative factors, such as the opaqueness and complexity of an institution's internal organization, that are indicative of the relative degree of difficulty of resolving the resulting firm. A financial institution that can be resolved in an orderly manner is less likely to inflict material damage to the broader economy.<sup>35</sup>

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Cathay Bancorp would have approximately \$12.4 billion in consolidated assets and, by any of a number of alternative measures of firm size, Cathay Bancorp would not be likely to pose systemic risks. The Board generally presumes that a proposal that involves an acquisition of less than \$2 billion in assets, or that results in a firm with less than \$25 billion in consolidated assets, will not pose significant risks to the financial stability of the United States absent evidence that the transaction would result in a significant increase in interconnectedness, complexity, cross-border activities, or other risk factors. Such additional risk factors are not present in this transaction.

In light of all the facts and circumstances, this transaction would not appear to result in meaningfully greater or more concentrated risks to the stability of the U.S. banking or financial system. Based on these and all other facts of record, the Board determines that considerations relating to financial stability are consistent with approval.

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<sup>34</sup> Many of the metrics considered by the Board measure an institution's activities relative to the U.S. financial system.

<sup>35</sup> For further discussion of the financial stability standard, see Capital One Financial Corporation, FRB Order 2012-2 (February 14, 2012).

## Conclusion

Based on the foregoing and all the facts of record, the Board has determined that the application should be, and hereby is, approved.<sup>36</sup> In reaching its conclusion, the Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act. The Board's approval is specifically conditioned on compliance by Cathay Bancorp with all the conditions imposed in this Order, including receipt of all required regulatory approvals, and on the commitments made to the Board in connection with the application. For purposes of this action, the conditions and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision herein and, as such, may be enforced in proceedings under applicable law.

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<sup>36</sup> The commenter requested that the Board hold public hearings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on an application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 CFR 225.16(e). The Board has not received such a recommendation from the appropriate supervisory authorities. Under its rules, the Board also may, in its discretion, hold a public hearing if appropriate to allow interested persons an opportunity to provide relevant testimony when written comments would not adequately represent their views. The Board has considered the request in light of all the facts of record. In the Board's view, the commenter has had ample opportunity to submit comments on the proposal and, in fact, submitted a written comment that the Board has considered in acting on the proposal. The commenter's request does not identify disputed issues of fact that are material to the Board's decision and that would be clarified by a public hearing. In addition, the request does not demonstrate why the written comments do not present the commenter's views adequately or why a hearing would otherwise be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing is not required or warranted in this case. Accordingly, the request for a public hearing on the proposal is denied.

The proposal may not be consummated before the 15th calendar day after the effective date of this Order or later than three months thereafter unless such period is extended for good cause by the Board or the Federal Reserve Bank of San Francisco acting pursuant to delegated authority.

By order of the Board of Governors,<sup>37</sup> effective July 16, 2015.

*Robert deV. Frierson (signed)*

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Robert deV. Frierson  
Secretary of the Board

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<sup>37</sup> Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.