

FEDERAL RESERVE SYSTEM

Cathay General Bancorp
Los Angeles, California

Order Approving the Acquisition of a Bank Holding Company

Cathay General Bancorp (“Cathay”), Los Angeles, California, a bank holding company within the meaning of the Bank Holding Company Act of 1956 (“BHC Act”),¹ has requested the Board’s approval under section 3 of the BHC Act² to acquire SinoPac Bancorp (“SinoPac”) and thereby indirectly acquire Far East National Bank (“Far East Bank”), both of Los Angeles, California.³

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published in accordance with the Board’s rules (81 Federal Register 70682 (October 13, 2016)).⁴ The time for submitting comments has expired,

¹ 12 U.S.C. § 1841 et seq.

² 12 U.S.C. § 1842.

³ Following the proposed acquisition, Cathay plans to submit an application pursuant to section 18(c) of the Federal Deposit Insurance Act to merge Far East Bank into Cathay’s subsidiary bank, Cathay Bank, Los Angeles, California. The merger of Far East Bank into Cathay Bank will be subject to the approval of the Federal Deposit Insurance Corporation (“FDIC”). 12 U.S.C. § 1828(c). For the interim period between consummation of the proposed acquisition and the anticipated bank merger, Cathay intends to operate Cathay Bank and Far East Bank as separate subsidiaries.

⁴ 12 CFR 262.3(b). The Board received a comment asserting that Cathay did not provide adequate notice of the proposed acquisition to communities outside of California. In accordance with the Board’s rules, notice of the proposal was published in a relevant newspaper of general circulation (*The Los Angeles Times*) in the community in which both Cathay and Far East Bank have their head offices, and commenters were provided over 30 days from the date of publication to submit their views on all aspects of the proposal.

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, with consolidated assets of approximately \$14.1 billion, is the 102nd largest insured depository organization in the United States. Cathay controls approximately \$10.9 billion in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States.⁵ Cathay controls Cathay Bank, which operates in California, Illinois, Nevada, New York, New Jersey, Maryland, Massachusetts, Texas, Washington, Hong Kong, Shanghai, and Taipei. Cathay Bank is the 18th largest insured depository institution in California, controlling deposits of approximately \$7.4 billion in California, which represent less than 1 percent of the total deposits of insured depository institutions in that state.⁶

SinoPac, with consolidated assets of approximately \$1.3 billion, is the 571st largest insured depository organization in the United States. SinoPac controls approximately \$981.8 million in consolidated deposits, which represent less than 1 percent of the total amount of deposits of insured depository institutions in the United States. SinoPac controls Far East Bank, which operates in California and controls less than 1 percent of the total deposits of insured depository institutions in that state.

On consummation of this proposal, Cathay would become the 94th largest depository organization in the United States, with consolidated assets of approximately \$15.4 billion, which represent less than 1 percent of the total assets of insured depository organizations in the United States. Cathay would control consolidated deposits of approximately \$11.9 billion, which represent less than 1 percent of the total amount of deposits of insured depository organizations in the United States. In California, Cathay would remain the 18th largest depository institution, controlling deposits of

⁵ National asset and deposit data are as of September 30, 2016, unless otherwise noted.

⁶ State deposit data are as of June 30, 2015. In this context, insured depository institutions include commercial banks, credit unions, savings associations, and savings banks.

approximately \$8.2 billion, which represent less than 1 percent of the total deposits of insured depository institutions in that state.

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.⁷ The BHC Act also prohibits the Board from approving a proposal that would substantially lessen competition or tend to create a monopoly in any 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.⁸

Cathay and SinoPac have subsidiary depository institutions that compete directly in the Los Angeles, California, banking market (“Los Angeles market”)⁹ and the San Francisco-Oakland-San Jose, California, banking market (“San Francisco market”).¹⁰ The Board has considered the competitive effects of the proposal in these banking markets. 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 deposits”) that Cathay would control;¹¹ the

⁷ 12 U.S.C. § 1842(c)(1).

⁸ 12 U.S.C. § 1842(c)(1)(B).

⁹ The Los Angeles market is defined as the Los Angeles metropolitan area in Los Angeles and Orange counties, as well as portions of San Bernardino, Ventura, and Kern counties.

¹⁰ The San Francisco market is defined as the San Francisco-Oakland-San Jose metropolitan area in Alameda, Contra Costa, Marin, San Francisco, San Mateo, and Santa Clara counties, as well as portions of Sonoma, Solano, San Benito, and Napa counties.

¹¹ Local deposit and market share data are as of June 30, 2015, 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

concentration levels of market deposits and the increase in these levels, as measured by the Herfindahl-Hirschman Index (“HHI”) under the Department of Justice Bank Merger Competitive Review guidelines (“DOJ Bank Merger Guidelines”);¹² 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 in the Los Angeles and San Francisco markets. On consummation of the proposal, the Los Angeles market would remain unconcentrated, as measured by the HHI, according to the DOJ Bank Merger Guidelines. The change in the HHI in this market would be small, and numerous competitors would remain in the banking market.¹³ On consummation of the proposal, the San Francisco market would remain highly concentrated, as measured by the HHI.

market share calculation on a 50 percent weighted basis. *See, e.g., First Hawaiian, Inc.*, 77 Federal Reserve Bulletin 52 (1991).

¹² 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), available at www.justice.gov/opa/pr/2010/August/10-at-938.html.

¹³ Cathay operates the 14th largest depository institution in the Los Angeles market, controlling approximately \$6.0 billion in deposits, which represent 1.34 percent of market deposits. SinoPac operates the 43rd largest depository institution in the same market, controlling deposits of approximately \$616.1 million, which represent about 0.14 percent of market deposits. On consummation of the proposed transaction, Cathay would become the 13th largest depository organization in the market, controlling deposits of approximately \$6.6 billion, which represent approximately 1.48 percent of market deposits. The HHI for the Los Angeles market would increase by less than 1 point and remain at 982, and 125 competitors would remain in the market.

The change in the HHI in the San Francisco market would be small, and numerous competitors would remain in the banking market.¹⁴

The DOJ also has conducted a review of the potential competitive effects of the proposal and 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 Los Angeles or San Francisco markets 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 section 3 of 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 information regarding the financial condition of the organizations involved on both parent-only and consolidated bases, as well as information regarding the financial condition of the subsidiary depository institutions and the organizations' significant nonbanking operations. In this evaluation, the Board considers a variety of information regarding capital adequacy, asset quality, and earnings performance, as well as public comments on

¹⁴ Cathay operates the 22nd largest depository institution in the San Francisco market, controlling approximately \$1.2 billion in deposits, which represent 0.28 percent of market deposits. SinoPac operates the 44th largest depository institution in the same market, controlling deposits of approximately \$219.0 million, which represent about 0.05 percent of market deposits. On consummation of the proposed transaction, Cathay would become the 20th largest depository organization in the market, controlling deposits of approximately \$1.42 billion, which represent approximately 0.33 percent of market deposits. The HHI for the San Francisco market would increase by less than 1 point and remain at 1810, and 83 competitors would remain in the market.

the proposal. 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 to complete 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 and SinoPac are both well capitalized, and the combined entity would remain so on consummation of the proposed transaction. The proposed transaction is a bank holding company acquisition that is structured primarily as an exchange of shares for cash.¹⁵ The asset quality, earnings, and liquidity of Cathay Bank and Far East Bank are consistent with approval, and Cathay 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.

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, SinoPac, 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; the Board's supervisory experiences with Cathay and SinoPac and those of other relevant bank supervisory agencies with the organizations; and the organizations' records of

¹⁵ To effect the transaction, each share of SinoPac common stock would be converted into a right to receive cash, based on an exchange ratio. Additionally, Cathay may elect to pay up to 10 percent of the purchase price in the form of shares of Cathay common stock. Cathay has the financial resources to fund the transaction.

compliance with applicable banking, consumer protection, and anti-money-laundering laws.¹⁶

Cathay, SinoPac, and their subsidiary depository institutions are each considered to be well managed. Cathay's directors and senior executive officers have substantial knowledge of and experience in the banking and financial services sectors, and Cathay's risk-management program appears consistent with approval of this expansionary proposal.

The Board also has considered Cathay's plans for implementing the proposal. Cathay has conducted comprehensive due diligence and is devoting significant financial and other resources to address all aspects of the post-integration process for this proposal. Cathay represents that, following consummation of the anticipated merger of Cathay Bank and Far East Bank, it would implement its risk-management policies,

¹⁶ A commenter expressed concern that the purchase price of the transaction was low and did not reflect an arm's length transaction. Another commenter raised concerns about whether the proposed transaction would promote trade relations and foreign policy with China. These concerns are outside the limited statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act. *See, Western Bancshares, Inc. v. Board of Governors*, 480 F.2d 749 (10th Cir. 1973) ("*Western Bancshares*"). One commenter expressed concern, without providing any evidence, that the government of China is influencing Cathay Bank, a United States-based bank. Based on the record, there is no indication that the government of China has an ownership interest in Cathay.

The Board also received a comment citing newspaper articles regarding concerns related to potential affiliate and insider transactions by the foreign parents of SinoPac. SinoPac is a wholly owned United States subsidiary of Bank SinoPac Company Limited ("Bank SinoPac"), a foreign banking organization based in Taipei, Taiwan. The incidents cited by the commenter do not relate to the applicant in this case and do not appear to relate to the operations of SinoPac or Far East Bank, but involve the foreign operations and activities of Bank SinoPac and a subsidiary of Bank SinoPac's Taiwan-based parent, SinoPac Financial Holdings Company Limited. As discussed above, the Board has reviewed the supervisory records of SinoPac and Far East Bank, the institutions that Cathay is proposing to acquire. This review included consideration of SinoPac's and Far East Bank's records of compliance with applicable laws and regulations, including those related to affiliate and insider transactions.

procedures, and controls at the combined organization.¹⁷ These policies, procedures, and controls are considered satisfactory from a supervisory perspective. In addition, Cathay's management has the experience and resources to ensure that the combined organization operates in a safe and sound manner.¹⁸

Based on all the facts of record, including Cathay'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 and SinoPac 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.¹⁹ In its evaluation of the effects of the proposal on the convenience and needs

¹⁷ Cathay represents that Far East Bank's risk-management policies and procedures would be maintained during the interim period between consummating the proposed acquisition of SinoPac and the anticipated merger of Cathay Bank and Far East Bank; however, Cathay Bank's current management team would provide comprehensive oversight and day-to-day monitoring.

¹⁸ One commenter asked the Board to consider the diversity of Cathay's employees and management in reviewing the proposed transaction. While the Board encourages all firms to promote diversity in their management and workforce, the statutory factors that the Board is authorized to consider when reviewing an application under the BHC Act are limited and specifically defined. *See, e.g., PacWest Bancorp*, 102 Federal Reserve Bulletin 82, 88 n. 24 (2015); *CIT Group, Inc.*, 102 Federal Reserve Bulletin 1, 7 n. 24 (2015); *Bank of America Corporation*, 90 Federal Reserve Bulletin 217, 223 n.31 (2004). *See also Western Bancshares*. Other provisions of law authorize the Board, together with the other federal financial supervisory agencies, to monitor the efforts of regulated entities to promote diversity and inclusion. Final Interagency Policy Statement Establishing Joint Standards for Assessing the Diversity Policies and Practices of Entities Regulated by the Agencies, 80 Federal Register 33016 (June 10, 2015). *See* Pub. L. No. 111-203, 124 Stat. 1376, 1541-44 (2010), codified at 12 U.S.C. § 5452.

¹⁹ 12 U.S.C. § 1842(c)(2).

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, as well as other potential effects of the proposal on the convenience and needs of the communities to be served. In this evaluation, the Board places particular emphasis on the records of the relevant depository institutions under the Community Reinvestment Act (“CRA”). 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,²⁰ 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, in evaluating bank expansionary proposals.²¹

In addition, the Board considers the banks’ overall compliance records and recent fair lending examinations. 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 also considers assessments of other relevant supervisors, the supervisory views of examiners, other supervisory information, information provided by the applicant, and comments received on the proposal. The Board also may consider the institution’s business model, its marketing and outreach plans, the organization’s plans after consummation, and any other information the Board deems relevant.

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 Far East 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; and the public comments received on the proposal.

²⁰ 12 U.S.C. § 2901(b).

²¹ 12 U.S.C. § 2903.

Summary of Public Comments on Convenience and Needs

In this case, the Board received comments from two commenters objecting to the proposal on the basis of Cathay's CRA performance and record of meeting the credit needs of the communities that it serves. The comments focused on Cathay Bank's record of serving LMI, African American, and Hispanic individuals, and small businesses. One comment focused primarily on the bank's performance in its California assessment areas, particularly the Los Angeles assessment area. The commenters argued that the bank is primarily focused on meeting the needs of Chinese American and/or Asian American individuals and should expand its customer base to other minority populations.

Specifically, one commenter argued that Cathay Bank made a disproportionately small number of loans to LMI individuals and small businesses as compared to peer institutions.²² This commenter argued that, based on data reported for 2015 under the Home Mortgage Disclosure Act ("HMDA"), Cathay Bank did not adequately serve African American and Hispanic individuals in the bank's California assessment areas. This commenter also argued that Cathay Bank was inadequately serving Southeast Asian individuals according to such data. Further, this commenter alleged that Cathay Bank engages in redlining and rewarded redlining by its management. This commenter was also critical of the amount Cathay Bank has devoted to CRA-related philanthropy and asserted that Cathay Bank's programs to address issues related to the unbanked or underbanked are inadequate.²³ Another commenter asserted that Cathay Bank's CRA performance is generally poor and contended that Cathay Bank

²² One commenter also voiced concerns about Cathay Bank's lending levels to minority-owned businesses and asserted that Cathay Bank made no Small Business Administration 7(a) loans to African American, Hispanic, or Southeast Asian American-owned businesses in 2015.

²³ The Board notes that neither the CRA nor the agencies' implementing rules require that institutions engage in a specific activity, such as charitable giving, in order to meet the credit needs of the communities the institutions serve. *See, e.g., PacWest Bancorp*, 102 Federal Reserve Bulletin 82, 88 (2015).

received some of its worst ratings outside the state of California. This commenter also contended that Cathay plans to close several branches following consummation of the proposed transaction.

In addition to the adverse comments received by the Board, Cathay submitted 17 letters from California-based community, charitable, and business organizations supporting the proposal. These organizations generally represented that Cathay Bank and Far East Bank have strong histories of providing banking services to underserved populations in the community and that the merger would enable Cathay to better address the diverse needs of the communities in which it operates.

Businesses of the Involved Institutions and Response to Comments

Cathay operates primarily through Cathay Bank and provides a broad range of financial products and services to retail consumers and businesses. Cathay Bank's products and services include a variety of checking, savings, and certificate of deposit accounts; mortgage and other consumer lending products; business services and lending; forward currency spot and forward contracts; and international banking. Cathay's nonbanking subsidiaries provide customers with wealth management services, securities, and investment products.

Far East Bank offers a broad range of consumer and commercial banking products and services through nine locations in California. Its products and services include checking, savings, and certificate of deposit accounts; mortgage and other consumer lending products; business services and lending; and international banking services.

In response to the comments, Cathay asserts that Cathay Bank is committed to meeting the credit needs of the communities it serves and believes its product and service offerings are responsive to the diverse needs of its assessment areas. Further, Cathay maintains that Cathay Bank has comprehensive policies and procedures in place to ensure compliance with fair lending laws and to monitor fair lending risk.

Cathay asserts that it has a strong record of lending to small businesses and compares favorably to peers in terms of lending rates to small businesses in LMI areas,

including in its California assessment areas. In support of this claim, Cathay represents that Cathay Bank's penetration rate for small businesses in LMI areas exceeded the average penetration rate by at least 3 percent in both 2014 and 2015. Further, Cathay asserts that Cathay Bank offers a number of loan products and programs targeted to small businesses, including micro loans in amounts ranging from \$5,000 to \$10,000 and unsecured revolving lines of credit with simple underwriting criteria that are offered in amounts ranging from \$10,000 to \$150,000. Cathay also represents that, contrary to one commenter's claim, Cathay Bank has made a number of loans to businesses owned by individuals of Southeast Asian origin and Latino-owned businesses.

Cathay notes that Cathay Bank's home mortgage loan operation is not large, representing only 25 percent of the bank's overall lending portfolio as of year-end 2015. Further, Cathay represents that mortgage loan penetration in the Los Angeles area is difficult considering the competitive environment and a very low percentage of owner-occupied housing. Nevertheless, Cathay represents that, as measured as a percentage of total lending, Cathay Bank's lending to low-income individuals is comparable to its peers. Cathay represents that another way it has tried to reach LMI and minority customers is through specific product and service offerings, including free or low-cost starter or second-chance bank accounts, and financial education programs. Cathay also represents that the bank offers a mortgage product for first-time homebuyers with lower fees, flexible terms, and lower down-payment requirements. Cathay also represents that some of these products are offered as part of a national program to move underbanked and unbanked individuals into the mainstream financial system and to improve access to financial education.

Cathay denies allegations that Cathay Bank engages in or rewards executives for redlining and asserts that these allegations are unfounded. Further, Cathay asserts that fair treatment of all of its customers and potential customers is an integral part of the bank's compliance management program. Cathay represents that this program includes ongoing fair lending and HMDA monitoring and testing; escalation and reporting of fair lending results to senior management; regular monitoring of customer

complaints for potential fair lending concerns; and assessments for potential redlining, reverse redlining, and steering. In particular, Cathay represents that all applications are subject to a multilevel manager review prior to funding or denial to ensure that all lending decisions are made within the scope of the bank's fair lending policies. Cathay also represents that the bank's compliance department monitors and evaluates the effectiveness of these policies and procedures, including through an annual fair lending compliance monitoring review of mortgage and retail lending across all lines of business. Cathay further represents that the results of the bank's compliance monitoring activities are reported to the appropriate line of business, as well as the bank's chief risk officer, chief executive officer, president, and the board's risk and compliance committee.

Cathay represents that Cathay Bank branches are located in areas with high Asian populations and the bank has strong brand identification with Asian Americans; however, Cathay Bank also represents that the bank actively engages in outreach activities to other minority or ethnic populations, including by advertising in a variety of languages. Further, Cathay asserts that Cathay Bank does not turn away or otherwise exclude any mortgage applicants. According to Cathay, all applicants are reviewed using the bank's normal policies and procedures for underwriting and are subject to all of the bank's policies and procedures with respect to fair lending and other consumer protection laws.

Cathay also represents that it and Cathay Bank have engaged organizations in California communities to determine the needs of those communities. Cathay further represents that, based on input from various community groups, as well as through Cathay Bank's community development efforts, Cathay Bank has identified affordable housing, small business training, and financial literacy as important needs in its assessment areas. Moreover, Cathay represents that, as a result, the bank's community development efforts have been focused, and will continue to focus, on these areas. Further, in October 2016, Cathay Bank announced multiyear goals and commitments related to community development lending, investments and services, charitable contributions, and residential mortgage lending and small business lending. As part of

this announcement, Cathay Bank committed to work to increase and diversify mortgage loan originations over the course of four years with the goal that its percentages of mortgage originations to LMI individuals and census tracts, as well as to racial and ethnic minorities, are substantially comparable to the average of all lenders in the relevant assessment areas.

Records of Performance Under the CRA

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 applicant's response to comments. In particular, the Board evaluates an institution's performance record in light of examinations by the appropriate federal supervisors of the CRA performance records of the relevant institutions, as well as information and views provided by the appropriate federal supervisors, in this case, the FDIC and the CFPB.²⁴

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.²⁵ 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.

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

²⁴ See Interagency Questions and Answers Regarding Community Reinvestment, 81 *Federal Register* 48506, 48548 (July 25, 2016).

²⁵ 12 U.S.C. § 2906.

the credit needs of individuals and geographies of all income levels. As part of the lending test, examiners review and analyze an institution's data reported under HMDA, 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 a variety of factors, including (1) the number and amount of home mortgage, small business, small farm, and consumer loans (as applicable) in the institution's assessment areas; (2) the geographic distribution of the institution's lending in its assessment areas and the number and amounts of loans in low-, moderate-, middle-, and upper-income geographies; (3) the distribution of loans based on borrower characteristics, including, for home mortgage loans, the number and amounts of loans to low-, moderate-, middle-, and upper-income individuals;²⁶ (4) the institution's community development lending, including the number and amount of community development loans and their complexity and innovativeness; and (5) the institution's use of innovative or flexible lending practices to address the credit needs of LMI individuals and geographies.

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

²⁶ 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).

available from HMDA data.²⁷ Consequently, HMDA data disparities must be evaluated in the context of other information regarding the lending record of an institution.

CRA Performance of Cathay Bank

Cathay Bank was assigned an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the FDIC, as of March 7, 2016 (“Cathay Bank Evaluation”).²⁸ The bank received a “Low Satisfactory” rating for the Lending Test and “High Satisfactory” ratings for both the Investment Test and the Service Test.²⁹

²⁷ 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.

²⁸ The Cathay Bank Evaluation was conducted using Large Institution CRA Examination Procedures. Examiners reviewed home purchase, home improvement, and home refinance mortgage loans reported pursuant to HMDA, and small business loans reported under CRA data collection requirements, for 2014 and 2015. The evaluation period for community development lending, investments, and services was September 4, 2012, through March 7, 2016.

²⁹ The Cathay Bank Evaluation included full-scope evaluations of nine assessment areas: Los Angeles, California (the Los Angeles–Long Beach–Glendale, California, Metropolitan Division (“MD”)); the Anaheim-Santa Ana-Irvine, California, MD; and the Riverside-San Bernardino-Ontario, California, Metropolitan Statistical Area (“MSA”); San Francisco, California (the San Francisco-Redwood City-South San Francisco, California, MSA; the San Jose-Sunnyvale-Santa Clara, California, MSA; and the Oakland-Hayward-Berkeley, California, MD); New York/New Jersey (the Nassau County-Suffolk County, New York, MD; the New York-Wayne-White Plains, New York-New Jersey MD; and the Newark, New Jersey-Pennsylvania MD); Seattle, Washington (the Seattle-Bellevue-Everett, Washington, MD); Houston, Texas (the Houston-The Woodlands-Sugarland, Texas, MSA); Boston, Massachusetts (the Boston, Massachusetts, MD and the Cambridge-Newton-Framingham, Massachusetts, MD); Chicago, Illinois (the Chicago-Naperville-Arlington Heights, Illinois, MD); Las Vegas, Nevada (the Las Vegas-Henderson-Paradise, Nevada, MSA); Maryland (the Silver Spring-Frederick-Rockville MD); and the Washington-Arlington-Alexandria, District of Columbia-Virginia-Maryland-West Virginia MD). Limited scope evaluations were performed in three assessment areas: Sacramento, California (the Sacramento-Roseville-Arden-Arcade, California, MSA); San Diego, California (the San Diego-Carlsbad, California, MSA); and Dallas, Texas (the Dallas-Plano-Irving, Texas, MD).

Although Cathay Bank's overall rating took into consideration its performance in each of its state and multistate metropolitan assessment areas, examiners gave the greatest weight to Cathay Bank's performance in California due to higher volume of activities in that state.³⁰ The Board has consulted with the FDIC regarding the Cathay Bank Evaluation.

Examiners found that Cathay Bank's overall lending activity reflected adequate responsiveness to the credit needs of its combined assessment area. Examiners noted that the bank was a leader in community development lending considering the bank's average asset size, financial ability, competition, and available opportunities. According to examiners, the bank's community development loans primarily supported affordable housing initiatives, community services, economic development, and revitalization or stabilization of communities. Examiners also found that the bank originated a substantial majority of loans inside of its assessment areas. Although examiners found that, overall, the bank's distribution of borrowers reflected poor penetration among retail customers of different income levels and business customers of different revenue sizes, they concluded that the bank exhibited an adequate record of serving the credit needs of the most economically disadvantaged individuals and very small businesses. Examiners also noted that, overall, geographic distribution of the bank's loans was adequate.

In Cathay Bank's California assessment areas, the primary focus of concern for one commenter, examiners found Cathay Bank's lending activity reflected adequate responsiveness to credit needs. This was also the conclusion regarding the bank's

³⁰ Cathay Bank received a "Satisfactory" overall rating in each of its state and multistate metropolitan assessment areas, except for Nevada and Maryland where it received ratings of "Substantial Non-Compliance." Because only a minor portion of the bank's overall lending, investments, and services were conducted in Nevada and Maryland, performance within each state received less weight in determining the bank's overall CRA rating. As described in more detail below, Cathay represents that the bank is working to improve its CRA performance in both states and has already made significant progress in doing so since the Cathay Bank Evaluation. Further, Cathay represents that the bank is a relatively recent entrant in, and has a limited presence in, each state.

Los Angeles assessment area, the area most affected by the proposed transaction and that was given the most weight for determining the bank's overall CRA rating.

Examiners found that, overall, the bank's geographic distribution of loans reflected adequate penetration throughout the California assessment areas, and no conspicuous lending gaps were noted. While examiners found geographic distribution of residential mortgage loans reflected poor penetration throughout the Los Angeles assessment area, they found geographic distribution of small business loans reflected good penetration. Examiners noted that, for 2014, the bank's percentage of small business loans in LMI census tracts in the assessment area exceeded the percentage of businesses in such census tracts. For 2015, examiners noted that the bank's percentage of small business loans exceeded the percentage of businesses in low-income census tracts in the assessment area and was consistent with the percentage of businesses in moderate income census tracts.

Examiners found that, overall, the bank's lending to businesses of different revenue sizes and borrowers of different income levels was poor in the California assessment areas;³¹ however, Cathay Bank was found to be a leader in community development lending in the state. In the Los Angeles assessment area, for example, examiners found the bank to be excellent in community development lending and highlighted several loans to support affordable housing, businesses, and nonprofits in LMI areas. Further, examiners concluded that Cathay Bank exhibited an adequate record of serving the credit needs of the most economically disadvantaged areas of its California assessment areas, low-income individuals, and very small businesses, consistent with safe and sound banking practices.

Examiners found that Cathay Bank made a significant level of qualified community development investments and grants within its assessment areas, particularly

³¹ In the Los Angeles assessment area, examiners noted that nearly 13 percent of the assessment area's families live below the poverty level, which can adversely impact the ability of families to qualify for mortgage loans and the bank's ability to make mortgage loans based on normal underwriting standards.

those that are not routinely provided by private investors. Examiners also noted that occasionally Cathay Bank took a leadership position with respect to these community development investments and grants. Examiners also noted that the bank exhibited good responsiveness to credit and community economic development needs. Examiners further observed that the bank made significant use of innovative or complex qualified investments to support community development initiatives. Examiners explained that the bank's investments included investments in affordable housing projects, community development financial institutions, and small business investment companies.

Additionally, examiners found that Cathay Bank's delivery systems were accessible to all portions of the bank's assessment areas, including LMI communities. To the extent that Cathay Bank had made changes to its branch network, examiners noted that the institution's record of opening and closing branches had not adversely affected the accessibility of its delivery systems, particularly to LMI geographies and/or LMI individuals. Examiners also found that the bank provided a relatively high level of community development services in its assessment areas.

Cathay Bank's Efforts Since the Cathay Bank Evaluation

Cathay represents that Cathay Bank has continued to demonstrate responsiveness to credit needs in the bank's assessment areas and continues to grow its CRA programs. Cathay asserts that the bank has made a number of community development loans and investments to support affordable housing and economic development in its assessment areas. Cathay notes that the bank has engaged in various outreach efforts and community service opportunities to support LMI persons and communities, as well as small businesses. Such efforts have included providing financial literacy courses to LMI individuals and technical assistance to small business owners.

Cathay represents that many of these community development loans and investments have been made in Cathay Bank's California assessment areas, where most of Cathay Bank's activities take place and the areas of primary concern for one commenter. In particular, Cathay represents that Cathay Bank has made a number of community development loans that promote economic development and investments that

promote affordable housing. Further, Cathay represents that Cathay Bank has provided community service hours supporting financial literacy and small business development.

While receiving an overall “Satisfactory” rating at the Cathay Bank Evaluation, Cathay acknowledges that examiners identified weaknesses in Cathay Bank’s CRA performance in its Nevada and Maryland assessment areas, but represents that the bank is making significant progress in addressing these weaknesses. Cathay notes that Cathay Bank entered both markets as a result of recent acquisitions and that the bank only has a single branch in each market. Cathay asserts that Cathay Bank has made significant strides since the Cathay Bank Evaluation to improve the CRA programs at each branch, and it is closely monitoring the programs’ performance. According to Cathay, the bank’s recent efforts in both assessment areas have included training programs for branch employees on the bank’s CRA program, goals, and expectations, as well as meetings with community organizations to gain a better understanding of community credit needs. Cathay represents that its efforts have already led to a significantly increased CRA presence for each branch over previous levels, and that it is confident the bank’s performance will continue to improve as it becomes more established in the areas.

CRA Performance of Far East Bank

Far East Bank received an overall rating of “Satisfactory” at its most recent CRA performance evaluation by the Office of the Comptroller of the Currency, as of April 23, 2014 (“Far East Bank Evaluation”).³² The bank received a “Satisfactory” rating for the Lending Test and an “Outstanding” rating for the Community Development Test.

³² The Far East Bank Evaluation was conducted using Intermediate Small Institution CRA Examination Procedures, consisting of the lending and community development tests. The institution’s lending performance is based on its (1) loan-to-deposit ratio, (2) loan originations for sale to the secondary market, (3) lending-related activities in its assessment areas, (4) record of engaging in lending-related activities for borrowers of different income levels and businesses and farms of different sizes, (5) geographic distribution of loans, and (6) record of taking action in response to written complaints about its performance. The community development test evaluates the number and

Examiners determined that Far East Bank's loan-to-deposit ratio exceeded the standard for satisfactory performance on the Lending Test given the bank's size, financial condition, and the credit needs of the bank's assessment areas. According to examiners, the bank's loan-to-deposit ratio compared favorably to peer institutions. Examiners also found that the bank originated a substantial majority of loans inside its assessment areas.

Examiners found that geographic distribution of the bank's loans reflected an excellent dispersion of loans in LMI areas. In the bank's Los Angeles assessment area, examiners also found that borrower distribution of small loans to businesses reflected a reasonable penetration to businesses with revenues of \$1 million or less. In the bank's Alameda assessment area, examiners found that borrower distribution of loans to businesses reflected poor penetration of loans to businesses with revenues of \$1 million or less, but noted that the bank only made a small volume of loans to businesses of any size. Examiners further explained that lending restrictions, competition, and limited branch staff hampered lending efforts in the Alameda assessment area.

Examiners found that the bank's overall performance in community development activities in its assessment area was "Outstanding." This conclusion was based on high levels of community development loans and community development

amount of the institution's community development loans and qualified investments; the extent to which the institution provides community development services; and the institution's responsiveness through such activities to community development lending, investment, and service needs. The Far East Bank Examination reviewed the bank's small business loans originated during the period from January 1, 2012, through December 31, 2013, as well as a limited number of mortgage loans originated before the bank discontinued its mortgage operations in 2010. Examiners also reviewed community development loans, qualified investments, and community development services from March 1, 2010, through April 23, 2014. The Far East Bank Evaluation included a full-scope review of the bank's Los Angeles County and Alameda County assessment areas. Limited-scope reviews were conducted of the bank's Orange County, San Francisco County, and Santa Clara County assessment areas.

investments, and an adequate level of retail and community development services. Examiners explained that the bank's community development loans and investments focused primarily on affordable housing and the bank's community services focused on financial literacy, which are both stated needs in the bank's assessment areas.

Views of Other Regulators

The Board has considered the record of Cathay Bank in complying with fair lending and other consumer protection laws, including the bank's policies and procedures relating to fair lending and other consumer protection laws and regulations. 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 laws and regulations. As part of its consumer compliance examination, the FDIC conducted a fair lending review focusing on residential mortgage lending. Concurrent with the FDIC's examination, the CFPB conducted a review of Cathay Bank's mortgage origination operations in order to determine compliance with applicable federal consumer financial laws, as well as Cathay Bank's system for managing compliance with these laws.

Additional Convenience and Needs Considerations

The Board also considers other potential effects of the proposal on the convenience and needs of the communities to be served. Cathay represents that upon consummation of the proposal, existing customers of Far East Bank would have access to a more expansive line of products and services. Specifically, Cathay represents that existing customers of Far East Bank would gain access to a variety of consumer and commercial credit card products, personal automobile loans, and a variety of investment products and services offered by affiliates of Cathay Bank. Existing Far East Bank customers also would have access to a broader array of cash management products and services.

Cathay represents that the acquisition will make available expanded resources to the communities currently served by Far East Bank. Specifically, Cathay represents that customers of both institutions would benefit from a larger lending capacity

and a higher lending limit. Cathay also represents that customers of both institutions would benefit from a more expansive branch network.³³

Cathay represents that it has not made any decisions regarding closing branches, but it may consider closing or consolidating Cathay Bank or Far East Bank branches following consummation of the anticipated bank merger. Cathay represents that any such decisions would be based on a variety of factors, including proximity of locations, future prospects of branch locations from a cost and income perspective, and whether the branch would provide added benefit to the community. According to Cathay, location in a majority-minority or LMI area would be one factor taken into consideration. Moreover, Cathay represents that any branch closures would be completed in accordance with regulatory requirements associated with closing branches.³⁴

Conclusion on Convenience and Needs Considerations

The Board has considered all the facts of record, including the CRA records of the relevant depository institutions involved, the institutions' records of compliance

³³ One commenter asserted that Cathay Bank should develop a Community Reinvestment Act Plan ("Plan") that addresses certain goals and meets the needs of specific segments of the community. This commenter urged the Board to approve the proposed transaction only if such a Plan is finalized. The Board has consistently found that neither the CRA nor the federal banking agencies' CRA regulations require depository institutions to make pledges or enter into commitments or agreements with any organization. *See, e.g., Huntington Bancshares Incorporated*, FRB Order No. 2016-13 at 32 n. 50 (July 29, 2016); *CIT Group, Inc.*, FRB Order No. 2015-20 at 24 n. 54 (July 19, 2015); *Citigroup Inc.*, 88 Federal Reserve Bulletin 485 (2002); *Fifth Third Bancorp*, 80 Federal Reserve Bulletin 838, 841 (1994). In its evaluation, the Board reviews the existing CRA performance record of an applicant and the programs that the applicant has in place to serve the credit needs of its CRA assessment areas.

³⁴ The Board notes that section 42 of the Federal Deposit Insurance Act (12 U.S.C. § 1831r-1), as implemented by the Joint Policy Statement Regarding Branch Closings (64 Fed. Reg. 34844 (1999)), requires that a bank provide the public with at least 30 days' notice, and the appropriate federal supervisory agency with at least 90 days' notice, before the date of a proposed branch closing. The bank also is required to provide reasons and other supporting data for the closure, consistent with the institution's written policy for branch closings.

with fair lending and other consumer protection laws, consultations with the FDIC and CFPB, confidential supervisory information, information provided by Cathay, the public comments on the proposal, and other potential effects of the proposal on the convenience and needs of the communities to be served. Based on that review, the Board concludes that the convenience and needs factor is consistent with approval. Moreover, the Board expects Cathay to implement policies, programs, and activities to help meet community credit needs at a level commensurate with the expanded size and scope of the combined organization.

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 risks to the stability of the United States banking or financial system.”³⁵

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 complexity of the financial system, and the extent of the cross-border activities of the resulting firm.³⁶ These categories are not exhaustive, and additional categories could

³⁵ Dodd-Frank Act § 604(d), Pub. L. No. 111-203, 124 Stat. 1376, 1601 (2010), codified at 12 U.S.C. § 1842(c)(7).

³⁶ Many of the metrics considered by the Board measure an institution’s activities relative to the U.S. financial system.

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.³⁷

The Board has considered information relevant to risks to the stability of the U.S. banking or financial system. After consummation, Cathay would have approximately \$15.4 billion in consolidated assets and, by any of a number of alternative measures of firm size, 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.

Conclusion

Based on the foregoing and all the facts of record, the Board determines that the application should be, and hereby is, approved.³⁸ In reaching its conclusion, the

³⁷ For further discussion of the financial stability standard, see *Capital One Financial Corporation*, FRB Order 2012-2 (February 14, 2012).

³⁸ A commenter requested that the Board hold public hearings or meetings on the proposal. Section 3(b) of the BHC Act does not require that the Board hold a public hearing on any application unless the appropriate supervisory authorities for the bank to be acquired make a timely written recommendation of denial of the application. 12 U.S.C. § 1842(b); 12 CFR 225.16(e). The Board has not received such a

Board has considered all the facts of record in light of the factors that it is required to consider under the BHC Act and other applicable statutes. The Board's approval is specifically conditioned on compliance by Cathay 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 proposal. 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.

The proposal may not be consummated before the fifteenth 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 under delegated authority.

By order of the Board of Governors,³⁹ effective March 20, 2017.

Margaret McCloskey Shanks (signed)

Margaret McCloskey Shanks
Deputy Secretary of the Board

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 commenter's request in light of all the facts of record. In the Board's view, the commenters have had ample opportunity to submit comments on the proposal and, in fact, submitted written comments that the Board has considered in acting on the proposal. The commenter's request did not identify disputed issues of fact material to the Board's decision and that would be clarified by a public meeting. In addition, the request did not demonstrate why written comments do not present the commenter's views adequately or why a hearing or meeting otherwise would be necessary or appropriate. For these reasons, and based on all the facts of record, the Board has determined that a public hearing or meeting is not required or warranted in this case. Accordingly, the request for a public hearing or meeting on the proposal is denied.

³⁹ Voting for this action: Chair Yellen, Vice Chairman Fischer, and Governors Tarullo, Powell, and Brainard.