

FEDERAL RESERVE SYSTEM

Cathay Bancorp, Inc.
Los Angeles, California

Order Approving the Merger of Bank Holding Companies

Cathay Bancorp, Inc. (“Cathay”) has requested the Board’s approval under section 3 of the Bank Holding Company Act (“BHC Act”) (12 U.S.C. § 1842) to merge with GBC Bancorp (“GBC”), and thereby indirectly acquire General Bank (“General Bank”), both in Los Angeles.¹

Notice of the proposal, affording interested persons an opportunity to submit comments, has been published (68 Federal Register 41,588 (2003)). The time for filing 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, with total consolidated assets of approximately \$3 billion, is the 16th largest banking organization headquartered in California, controlling one depository institution, Cathay Bank. Cathay Bank is the 29th largest depository institution in California, controlling deposits of approximately \$2.1 billion, representing less than 1 percent of total deposits in insured depository institutions in the state (“state deposits”).²

¹ Cathay Bank, also in Los Angeles (“Cathay Bank”), Cathay’s wholly owned subsidiary, has filed an application with the Federal Deposit Insurance Corporation (“FDIC”) under the Bank Merger Act (12 U.S.C. § 1828(c)) to merge General Bank into Cathay Bank.

² Deposit data are as of June 30, 2002, and state ranking data are as of December 31, 2002. In this context, depository institutions include commercial banks, savings banks, and savings associations.

GBC operates one subsidiary depository institution in California, General Bank, which is the 30th largest depository institution in California, controlling \$1.9 billion in deposits, representing less than 1 percent of state deposits. On consummation of the proposed merger, Cathay Bank would become the 16th largest depository institution in California, controlling deposits of \$4 billion.

Competitive Considerations

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

Cathay competes directly with GBC in the Los Angeles and the San Francisco-Oakland-San Jose banking markets, both in California.⁴ The Board has reviewed carefully the competitive effects of the proposal in the relevant banking markets in light of all the facts of record. In particular, the Board has considered the relative shares of total deposits in depository institutions in the markets (“market deposits”) controlled by the companies involved in this

³ 12 U.S.C. § 1842(c)(1).

⁴ These banking markets are defined in the Appendix.

transaction,⁵ 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 Merger Guidelines (“DOJ Guidelines”),⁶ and other characteristics of the market.

Consummation of the proposal would be consistent with Board precedent and the DOJ Guidelines in each of the two banking markets,⁷ with one market remaining unconcentrated and the other remaining moderately concentrated. The Department of Justice also has conducted a review of the expected competitive effects of the proposal and has advised the Board that it believes that consummation of the proposal is not likely to have a significantly adverse effect on competition in any relevant banking market. The FDIC has been

⁵ Deposit and market share data are as of June 30, 2002, and are based on calculations in which the deposits of thrift institutions, which include savings banks and savings associations, are weighted at 50 percent. The Board previously has indicated that thrift institutions have become, or have the potential to become, significant competitors of 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).

⁶ Under the DOJ Guidelines, 49 Federal Register 26,823 (1984), a market is considered unconcentrated if the post-merger HHI is under 1000 and moderately concentrated if the post-merger HHI is between 1000 and 1800. The Department of Justice has informed the Board that a bank merger or acquisition generally will 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. The Department of Justice has stated that the higher than normal HHI thresholds for screening bank mergers for anticompetitive effects implicitly recognize the competitive effects of limited-purpose lenders and other nondepository financial institutions.

⁷ Market data for these banking markets are provided in the Appendix.

afforded an opportunity to comment and has not objected to consummation of the proposal.

After carefully reviewing all the facts of record, and for reasons discussed in this order, the Board has concluded that consummation of the proposal is not likely to result in a significantly adverse effect on competition or on the concentration of banking resources in any of the banking markets in which Cathay and GBC directly compete or in any other relevant banking market. Accordingly, based on all the facts of record, the Board has determined that competitive factors are consistent with approval.

Financial and Managerial Considerations

The BHC Act requires the Board to consider the financial and managerial resources and future prospects of the companies and banks involved in a proposal and certain other supervisory factors under the BHC Act. In assessing the financial and managerial strength of Cathay and its subsidiaries, the Board has reviewed information provided by Cathay, confidential supervisory and examination information, and publicly reported and other financial information. Based on all the facts of record, the Board concludes that the financial and managerial resources and future prospects of the organizations involved in the proposal are consistent with approval, as are other supervisory factors under the BHC Act.

Convenience and Needs Considerations

In acting on a proposal under section 3 of the BHC Act, the Board is required to consider its effects on the convenience and needs of the community to be served and to take into account the records of the relevant

insured depository institutions under the Community Reinvestment Act (“CRA”).⁸ The CRA requires the federal financial supervisory agencies to encourage financial institutions to help meet the credit needs of local communities in which they operate, consistent with their safe and sound operation, and requires the appropriate federal financial supervisory agency to take into account an institution’s record of meeting the credit needs of its entire community, including low- and moderate-income (“LMI”) neighborhoods, in evaluating bank expansionary proposals. The Board has carefully considered the convenience and needs factor and the CRA performance records of the subsidiary depository institutions of Cathay and GBC in light of all the facts of record, including public comments on the effect the proposal would have on the communities to be served by the institutions resulting from this proposal.

A. Summary of Public Comments

The Board received eleven comments on the proposal. Nine supported the proposal or commented favorably on Cathay’s or GBC’s CRA-related activities. Many of these commenters commended Cathay or GBC for providing credit and support to nonprofit organizations, sponsoring community development activities, and participating in programs that provided affordable housing for LMI individuals. Other commenters related their favorable experiences with specific programs or services offered by Cathay or GBC.

⁸ 12 U.S.C. § 2901 et seq.

Two commenters (“Protestants”) questioned whether Cathay Bank was focused too narrowly on a relatively small Chinese-American population in its assessment area, while underserving larger populations of historically underserved minority communities. In addition, one Protestant questioned the bank’s lending record based on data reported under the Home Mortgage Disclosure Act (“HMDA”)⁹ and expressed concerns that Cathay made a disproportionately small number of small business and home mortgage loans to Latinos, African Americans, and Filipino Americans.¹⁰ Finally, one Protestant expressed the view that Cathay’s philanthropic contributions and the composition of Cathay Bank’s staff demonstrated a low standard of service to various minority groups.

B. CRA Performance Evaluations

As provided in the CRA, the Board has evaluated the convenience and needs factor in light of examinations of the CRA performance records of the relevant insured depository institutions by the appropriate federal supervisor. An institution's most recent CRA performance evaluation is a particularly important consideration in the applications process because it represents a detailed, on-site

⁹ 12 U.S.C. § 2801 et seq.

¹⁰ The Board notes that lenders are precluded from collecting racial or ethnic data on small business borrowers except when such data are collected for the purpose of conducting a self-test. The Board also notes that one Protestant focused on the ethnic background of Cathay Bank’s officers and director and implied that the bank lends to ethnic Chinese borrowers to the detriment of Filipino and other Asian/Pacific Islander individuals. HMDA data, however, are reported in broader ethnic categories and, therefore, isolating data on Chinese borrowers from data on Filipino or other Asian/Pacific Islander borrowers would be subjective and difficult to accomplish.

evaluation of the institution's overall record of performance under the CRA by its appropriate federal supervisor.¹¹

Cathay Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of January 22, 2001. General Bank received a “satisfactory” rating at its most recent CRA performance evaluation by the FDIC, as of December 10, 2001. Examiners found no evidence of prohibited discrimination or other illegal credit practices at either of the insured depository institutions involved in this proposal and found no violations of the substantive provisions of fair lending laws. Examiners also reviewed the assessment areas delineated by Cathay Bank and General Bank and concluded that the areas were reasonable and did not arbitrarily exclude LMI neighborhoods. In addition, the Board has evaluated information submitted by Cathay about the CRA performance of Cathay Bank since the 2001 evaluation, including information relating to the bank’s community development lending, lending practices, and CRA-related investments.

C. Cathay Bank’s CRA Performance Record

Examiners rated Cathay Bank “high satisfactory” under the lending test at its most recent CRA performance evaluation for the evaluation period January 1, 1999, through December 31, 2000. Examiners noted that Cathay Bank was primarily a commercial lender serving the needs of small- and medium-sized businesses.¹² They concluded that the bank’s lending reflected an excellent responsiveness to the credit needs of its assessment areas, noting that more than

¹¹ See Interagency Questions and Answers Regarding Community Reinvestment, 66 Federal Register 36,620 and 36,639 (2001).

¹² Examiners noted that 75 percent by number and 70 percent by dollar volume of all loan originations during the evaluation period were small business loans.

90 percent of Cathay Bank's small business and home mortgage loans were made in the bank's seven assessment areas. Examiners also noted that Cathay Bank used flexible lending practices, such as a new low-document loan program of the Small Business Administration ("SBA") and the bank's Community Home Loan Program. In addition, the bank offered a variety of innovative loans, including products from various federal government agencies' guarantee programs, to meet credit needs and serve consumers and businesses in its assessment areas who would otherwise not qualify for traditional banking products.

Examiners reported that the bank's geographic distribution of loans, particularly its small business loans, reflected a good geographic distribution throughout the assessment area. Thirty-four percent of the small business loans originated by Cathay Bank during the evaluation period were made to borrowers in LMI census tracts. Examiners also noted that the bank's distribution of loans reflected good penetration among business borrowers of different sizes, particularly small business borrowers.

Examiners found that Cathay Bank made a relatively high amount of community development loans, totaling \$74 million during the evaluation period. These loans funded the construction, renovation, and preservation of affordable housing, as well as economic revitalization, such as a \$27.5 million construction loan to build a shopping center in a low-income area in Los Angeles and a \$27 million construction loan to build an industrial building in a low-income area in Richmond, California.

Since the 2001 evaluation, Cathay Bank has achieved similar levels of geographic distribution for its small business loans. In 2001 and 2002, the bank made approximately 38 percent and 35 percent, respectively, of its small business loans to borrowers in LMI census tracts. In addition, Cathay Bank's level of community development lending has increased since the 2001 evaluation. Cathay

states that the bank has originated 61 community development loans, totaling \$221 million in 2001 and 2002. Many of the loans were commercial real estate loans or lines of credit to small- and medium-sized businesses in designated empowerment or enterprise zones in California.

Cathay Bank received a “high satisfactory” rating for its investment activities in the 2001 evaluation. Examiners noted that the bank had made \$27.2 million in qualified community development investments and was particularly responsive to the needs identified in its assessment areas. Examiners also noted that the bank had developed an active strategy of making most of its community development investments in affordable housing-related projects.

Cathay states that since the 2001 evaluation, the bank has made more than \$47 million in housing-related investments. These investments involved housing-tax-credit investments and mortgage-backed securities, as well as grants and contributions to community and nonprofit organizations.

Cathay Bank also received a “high satisfactory” rating for retail banking services in the 2001 evaluation. Examiners reported that its banking services, business hours, and alternative delivery systems in its assessment areas were very good and were accessible to all portions of the bank’s community, including LMI areas and individuals. Examiners noted that the bank had staff that was fluent in several languages, including Spanish, Cantonese, Mandarin, Taiwanese, and Vietnamese.¹³

¹³ General Bank and Cathay Bank have employees of different racial and ethnic backgrounds, and after the merger, Cathay Bank’s business plan would continue to support hiring candidates able to provide multilingual services.

D. General Bank's CRA Performance Record

As noted above, General Bank received a “satisfactory” rating at its most recent CRA performance evaluation, and examiners rated General Bank “high satisfactory” under the lending test for the evaluation period January 1, 1999, through September 30, 2001. Examiners concluded the bank’s lending levels reflected an excellent responsiveness to the credit needs of its assessment areas and commended the bank for extending more than 90 percent of its loans in these areas. Examiners noted that General Bank was primarily a commercial lender serving the credit needs of small- to medium-sized businesses, originated consumer loans on an accommodation basis, and no longer reported HMDA data. Examiners also noted that General Bank had a good geographic distribution of loans in its assessment areas. During the evaluation period, the bank made approximately 33 percent of its small business loans by number and 31 percent by dollar volume to businesses in LMI census tracts. Examiners considered these levels to compare favorably with the aggregate levels for small business lenders in the assessment areas.

Examiners found that General Bank made a relatively large amount of community development loans, totaling \$48.2 million. Most of these loans funded the construction and renovation of affordable single and multifamily housing. Examiners noted General Bank’s use of flexible lending practices to small business borrowers in its assessment area, including the origination of 72 SBA loans totaling approximately \$19 million during the evaluation period.

General Bank received a “high satisfactory” rating for its investment activities at the 2001 evaluation. Examiners characterized General Bank’s level of qualified community development investments as significant, noting that the bank was principally a commercial lender, but that it had made most of its community development investments in affordable housing-related activities throughout its

California assessment areas. The bank entered into 27 qualified investments from July 1999 through December 2001, totaling approximately \$19.3 million, that examiners found responsive to the needs identified in its California assessment areas. Examiners also noted that General Bank made grants and donations to several community development organizations.

In 2002, General Bank increased its small business lending in LMI census tracts, extending approximately 35 percent of its small business loans to businesses in LMI census tracts. Since the 2001 evaluation, General Bank also originated 59 community development loans totaling approximately \$20 million and entered into housing-related investments totaling approximately \$5 million.

General Bank received a “high satisfactory” rating for retail banking services in the 2001 evaluation. Examiners reported that banking services at General Bank were accessible to essentially all portions of its assessment areas, and that branch locations and hours were generally convenient to most portions of its overall assessment areas. Examiners also noted the bank’s alternative delivery systems included ATMs and 24-hour Internet and telephone banking.¹⁴ Examiners found that General Bank provided a high level of community development services, such as sponsoring a minority business-financing workshop to assist start-up businesses in LMI areas and organizing an annual charity event designed to benefit a low-income housing service, homeless shelter, and community service organization.

E. HMDA

The Board has carefully considered Cathay’s lending record in light of the public comments on the bank’s HMDA data. In considering this proposal, the

¹⁴ The telephone banking service is available in English, Spanish, and Mandarin.

Board has reviewed publicly available HMDA data for 2001 and 2002 for Cathay Bank and lenders that operate in the bank's assessment areas.

The Board is concerned when the record of an institution indicates disparities in lending and believes that all banks are obligated to ensure that their lending practices are based on criteria that ensure not only safe and sound lending, but also equal access to credit by creditworthy applicants regardless of their race or income level. The Board recognizes, however, that HMDA data alone provide an incomplete measure of an institution's lending in its community because these data cover only a few categories of housing-related lending. HMDA data, moreover, provide only limited information about covered loans.¹⁵ HMDA data, therefore, have limitations that make them an inadequate basis, absent other information, for concluding that an institution has not assisted adequately in meeting its community's credit needs or has engaged in illegal lending discrimination.

The Board notes that Cathay Bank's primary focus is providing business credit to small- and medium-sized businesses, which is not subject to the same reporting requirements that mortgage loans are under HMDA. Cathay Bank originates a limited number of HMDA loans, many of which are to accommodate

¹⁵ The data, for example, do not account for the possibility that an institution's outreach efforts may attract a larger proportion of marginally qualified applicants than other institutions attract and do not provide a basis for an independent assessment of whether an applicant who was denied credit was, in fact, creditworthy. Credit history problems and excessive debt levels relative to income (reasons most frequently cited for a credit denial) are not available from HMDA data.

business customers.¹⁶ Neither the HMDA data nor on-site evaluations of compliance by Cathay Bank with fair lending laws indicate that Cathay Bank has excluded any segment of the population or geographic areas on a prohibited basis. The record also indicates that Cathay has taken a number of affirmative steps to attract customers other than Asian Americans. For example, Cathay Bank has increased its lending to African Americans by purchasing mortgage loans from an African-American-owned bank.

The Board also has considered the HMDA data in light of Cathay Bank's overall performance under the CRA. As noted above, Cathay has a number of programs, consistent with its strategy of serving small businesses, that are designed to help serve all segments of LMI areas in its assessment areas. The Board believes that, when viewed in light of the entire record, the HMDA data indicate that the bank's record of performance in helping to serve the credit needs of its community is consistent with approval of the proposal.

F. Conclusion on Convenience and Needs Considerations

In reviewing the proposal's effect on the convenience and needs of the communities to be served by the combined organization, the Board has carefully considered the entire record, including the public comments received, information submitted by Cathay, reports of examinations of the CRA performance of Cathay Bank and General Bank, and confidential supervisory information from the FDIC. Based on all the facts of record and for the reasons discussed above, the Board concludes that considerations relating to the convenience and needs factor,

¹⁶ The Board has previously recognized that banks help serve the banking needs of communities by making a variety of products and services available, and that the CRA does not require an institution to provide any specific type of products and services, such as mortgages, in its assessment area. See, e.g., Firststar Corporation, 87 Federal Reserve Bulletin 236 (2001).

including the CRA performance records of the relevant depository institutions, are consistent with approval.

Conclusion

Based on the foregoing and in light of all the facts of record, the Board has determined that the application should be, and hereby is, approved.¹⁷ In reaching this 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 and other

¹⁷ Protestants requested that the Board extend the comment period on the proposal to allow them additional time to negotiate a CRA commitment with the bank. The Board previously has concluded that the CRA requires it to review an insured depository institution's actual record of performance under the CRA without reliance on plans or commitments for future action. See, e.g., Totalbank Corp. of Florida, 81 Federal Reserve Bulletin 876 (1995). The Board also has noted that, although communication by depository institutions with community groups provides a valuable method of assessing and determining how an institution may best address the credit needs of the community, neither the CRA nor the CRA regulations of the federal financial supervisory agencies require depository institutions to enter into agreements with any organization, and the presence or absence of a written agreement between a bank and community groups does not influence the Board's evaluation of the CRA performance of a bank. See, e.g., Fifth Third Bancorp, 80 Federal Reserve Bulletin 838 (1994).

The Board has accumulated a significant record in this case, including reports of examination, supervisory information, public reports and information, and considerable public comment. In the Board's view, commenters have had ample opportunity to submit their views and, in fact, they have provided written submissions that have been considered carefully by the Board in acting on the proposal. Moreover, the BHC Act and Regulation Y require the Board to act on proposals submitted under those provisions within certain time periods. 12 U.S.C. § 1842(b); 12 C.F.R. 225.15(d). Based on a review of all the facts of record, the Board has concluded that the record in this case is sufficient to warrant Board action at this time and that an extension of the comment period is not warranted. Accordingly, the requests for an extension of the comment period are denied.

applicable statutes. The Board's approval is specifically conditioned on compliance by Cathay with all the representations and commitments made in connection with the application and the receipt of all other regulatory approvals. These representations and commitments are deemed to be conditions imposed in writing by the Board in connection with its findings and decision and, as such, may be enforced in proceedings under applicable law.

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

By order of the Board of Governors,¹⁸ effective September 15, 2003.

(signed)

Robert deV. Frierson
Deputy Secretary of the Board

¹⁸ Voting for this action: Chairman Greenspan, Vice Chairman Ferguson, and Governors Gramlich, Bies, Olson, Bernanke, and Kohn.

APPENDIX

Banking Markets in which Cathay and GBC Directly Compete

Los Angeles. The Los Angeles banking market is defined as the Los Angeles Ranally Metro Area (“RMA”) and the towns of Acton and Rosamond. Cathay operates the 15th largest depository institution in the market, controlling deposits of approximately \$1.8 billion, representing approximately 1 percent of market deposits. GBC operates the 18th largest depository institution in the market, controlling deposits of approximately \$1.6 billion, representing less than 1 percent of market deposits. On consummation of the proposal, Cathay would operate the 10th largest depository institution in the market, controlling deposits of approximately \$3.4 billion, representing approximately 1.9 percent of market deposits. The HHI would increase 2 points to 987.

San Francisco-Oakland-San Jose. The San Francisco-Oakland-San Jose banking market is defined as the San Francisco-Oakland-San Jose RMA and the towns of Hollister, Pescadero, Point Reyes Station, and San Juan Bautista. Cathay operates the 31st largest depository institution in the market, controlling deposits of approximately \$263 million, representing less than 1 percent of market deposits. GBC operates the 32nd largest depository institution in the market, controlling deposits of approximately \$257 million, representing less than 1 percent of market deposits. On consummation of the proposal, Cathay would operate the 22nd largest depository institution in the market, controlling deposits of approximately \$520 million, representing less than 1 percent of market deposits. The HHI would remain unchanged at 1457.