



Comptroller of the Currency
Administrator of National Banks

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Community Reinvestment Act Performance Evaluation

**The Pacific Bank, N.A.
Charter Number: 17917**

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NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the CRA performance of **The Pacific Bank, N.A.** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **December 17, 1997**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Census Tract (CT) - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. ACT has defined boundaries per ten year census and an average population of 4,000.

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

Median Family Income (MFI) - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of CTs. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Low-Income - Income levels that are less than 50% of the MFI.

Moderate-Income - Income levels that are at least 50% and less than 80% of the MFI.

Low-and Moderate-Income (LMI) - Income levels that are less than 80% of MFI.

Middle-Income - Income levels that are at least 80% and less than 120% of the MFI.

Upper-Income - Income levels that are 120% or more of the MFI.

Small Business Loans - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

Small Farm Loans - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

CRA Rating

Institution's CRA Rating: This institution is rated **"Satisfactory."**

The major factors which support this rating include:

- ▶ The number of small loans to businesses made by the bank is good. In 1996, the bank was the tenth largest volume lender in number of small loans to businesses in two of its three assessment areas. However, of all funds deposited in financial institutions in the assessment areas, the bank had less than a 1% share. Seventy-seven percent of the small loans to businesses made by the bank were made within the assessment areas. Loan percentages used throughout the public evaluation refer to number of loans versus dollar volume of loans. Number volume was used because the needs of small business are for smaller dollar loans which would not be accurately reflected if only the dollar volume was used. .
- The bank's distribution of loans to LMI CTs is good. In 1996 and 1997, 43% of all small loans to businesses were in LMI CTs.
- The distribution of loans to businesses of different sizes is adequate. Loan size is an indicator of the bank's responsiveness to the needs of the small business community. Contacts with organizations representing small business in the assessment area indicate that small businesses have a need for small loans with flexible underwriting standards. Of the loans to businesses with revenues of less than \$1 million, only 35% were less than \$100 thousand in size. Data for all banks in the assessment area indicates that 89% of all reported small loans to businesses were less than \$100 thousand in size
- The bank has a relatively high level of community development loans totaling \$28.5 million that directly benefit the assessment areas. These loans represent 36% of equity capital. The amount a bank can lend is a function of its capital base. The amount of community development lending or investments relative to its capital is an indication of the commitment of the bank to community development lending or investment.
- The bank has a low level of investment in the assessment areas, however, they represent a good responsiveness to community needs. Several investments show a high level of complexity.
- Services are reasonably accessible to all businesses in the assessment area. There have been no branches opened or closed in LMI CTs. Services do not vary in a way that would inconvenience businesses in the assessment area.

The following table indicates the performance level of **The Pacific Bank, N.A.** with respect to the lending, investment, and service tests:

Performance Levels	The Pacific Bank, N.A. Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory	X		
Low satisfactory		X	X
Needs to improve			
Substantial noncompliance			

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

Description of the Pacific Bank, N.A.

The Pacific Bank, N.A., which is headquartered in the financial district of San Francisco, is primarily a commercial lender engaged in the business of servicing and financing international trade, small to medium sized businesses, professional organization and high net worth individuals. As of September 30, 1997, the bank had total assets of \$595 million. Gross loans and leases totaled \$367 million of which \$123 million or 33% was secured by non farm, nonresidential real estate or for construction and land development and \$199 million or 54% was for commercial and industrial loans. The bank has \$15 million in loans to addresses outside the United States.

The bank primarily serves three assessment areas; San Francisco County, San Mateo County, and Los Angeles and Orange County. The bank has seven deposit taking branches located in San Francisco, Burlingame and Los Angeles. The bank has a loan production office in Sacramento, California, an offshore banking facility in the Cayman Islands and a restricted license branch in Hong Kong. In 1996, the bank acquired Burlingame Bank and Trust in San Mateo County which at the time of the acquisition had an asset size of \$71 million. The bank offers consumer loans, commercial loans, real estate loans, and international trade finance. The bank does not market residential real estate mortgages and other consumer loan products. These are granted as an accommodation to existing customers. The bank was previously examined under CRA in October 1994 when it received a rating of "Satisfactory Record of Meeting Community Credit Needs." There are no legal or financial impediments which would affect the bank's ability to meet the credit needs of its community.

Description of the Bank's Assessment Areas

The Pacific Bank has three designated assessment areas for CRA performance. The bank's assessment areas meet the requirements of the regulation and do not arbitrarily exclude any Low- and Moderate-Income (LMI) geographies. The assessment areas are located in three separate MSAs; Los Angeles - Long Beach(#4480) Orange County (#5945), and San Francisco(#7360). The San Mateo and San Francisco Assessment areas are adjacent to each other and are located in the San Francisco MSA.

San Francisco Assessment Area

The San Francisco assessment area consists of the city and county of San Francisco. It is located in the San Francisco MSA 7360. The population of the area is approximately 723, 959 as of the 1990 census. Forty-two percent of the area's 149 CTs are designated as LMI. Major industries in the area are the international trade and high technology sectors as well as financial and business services. Tourism is also a significant industry in the area. There are 44,419 businesses located within the San Francisco County Assessment area. Seventy-four percent of these businesses report annual revenues of less than one million dollars. More than half of the jobs in San Francisco are located in the Financial District and south of Market areas. Housing prices are among the highest in the nation with a median housing price of \$319,708. This has resulted in overcrowding, deferral of home ownership, and payment of unusually high percentages of income for rent. Interviews with members of the community in the area indicate a need for affordable housing loans and small business financing and education. Three of the bank's four branches are located in low income census tracts within the downtown financial district. The fourth branch is located in a middle income census tract.

San Mateo Assessment Area

The San Mateo assessment area is located in San Francisco MSA 7360 and consists of the county of San Mateo, just south of San Francisco. San Mateo County includes the cities of San Bruno, Millbrae, Hillsborough and Burlingame. San Francisco International Airport is also within the county. The population of the assessment area is 649,623 as of the 1990 census. The county has 158 CTs of which none are low income tracts and 19 are moderate income tracts. The largest industry sectors are service, retail and manufacturing. The location of the area between Silicon Valley and San Francisco gives residents employment opportunities in both places. With 31,000 employees, San Francisco International Airport is the largest employer in the region. Job growth is expected to be centered in transportation and business services. Emerging growth industries are in software, multimedia and environmental technology. The bank's two branches in the assessment area are located in middle income census tracts.

Southern California Assessment Area

The Southern California assessment area is located in the Los Angeles - Riverside - Orange County Consolidated Metropolitan Statistical Area which includes Los Angeles - Long Beach MSA (#4480) and Orange County MSA (#5945) and consists of Los Angeles and Orange Counties. The population of the assessment area is 11,273,720 as of the 1990 census. The two counties have 2,136 CTs of which 16 are in low income CTs and 495 are in moderate income CTs. The largest industry sectors are services, manufacturing, retail and government. The bank's one branch in the assessment area is located in a low income census tract.

Assessment Area Credit Needs

To evaluate the credit and community development needs, examiners reviewed recent contacts with community development organizations. We also reviewed the results of the bank's analysis of the community's needs. The primary credit and community development needs of the combined assessment areas include;

- affordable home ownership programs,
- loans to small businesses,
- operating grants to local community groups,
- home-ownership counseling, and
- assistance with financial services and credit education for small business owners.

Conclusions with Respect to Performance Tests

LENDING TEST

In assessing lending performance, we focused on The Pacific Bank's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses; community development lending; and, product flexibility.

Conclusions:

- Lending levels reflect a good responsiveness to the assessment area's credit needs. Seventy-seven percent of loans are made in the institutions assessment areas.
- The geographic distribution reflects a good penetration throughout the assessment area. Forty-three percent of the bank's small loans to businesses are located in LMI CTs.
- The distribution of loans to businesses of different sizes is adequate. Loan size is an indicator of the bank's responsiveness to the needs of the small business community. Contacts with organizations representing small business in the assessment area indicate that small businesses have a need for small loans with flexible underwriting standards. Of the loans to businesses with revenues of less than \$1 million, only 35% were less than \$100 thousand in size while data for all banks in the assessment area indicates that 89% of all small loans to businesses reported were less than \$100 thousand in size.
- The bank has a high level of community development loans totaling \$28 million that directly benefit the assessment areas. These loans represent 36% of the bank's total equity capital.

Lending Activity

We did not assess HMDA performance. The volume of housing loans is an insignificant portion of the bank's loan portfolio due to the focus of the bank on business and commercial banking. The bank made four HMDA reportable loans totaling \$3 million during 1996.

The volume of small loans to businesses made by the bank is good. In 1996, the bank was the tenth largest volume lender of small loans to businesses in two of its three assessment areas. However, of all funds deposited in financial institutions in the assessment areas, the bank had less than a 1% share. The amount of lending relative to the deposit base is given because the deposit base is a measure of a bank's presence in the community.

Assessment Area Concentration

Of the small loans to businesses made by the bank in all three assessment areas, 77% were made within the assessment areas. Table 1 summarizes The Pacific Bank's small business and community development lending within the assessment area.

Table 1 Volume of Small Business and Community Development Loans for the assessment period January 1996 through September 1997 (Includes all Assessment Areas)						
Loan Product	Total Originations		Within the Assessment Areas			
	#	\$ (000)	#	%	\$ (000)	%
Small Business	459	145,712	352	77%	112,772	77%
Community Development	6	28,500	6	100%	28,500	100%
Grand Total	465	174,212	358	77%	141,272	80%

Geographic Distribution of Loans within the Assessment Area

The bank's distribution of loans in LMI CTs is good. In 1996 and 1997, 43% of the bank's small loans to businesses were in LMI CTs. Business demographic information on the bank's assessment areas indicates that 31% of all businesses with revenues of less than \$1 million are located within LMI CTs. In the San Francisco MSA where the bank does the majority of its lending, 43% of all bank loans were made in LMI CTs while 41% percent of small businesses are located there.

1996 lending data for all reporting banks indicates that in The Pacific Bank's assessment areas, 28% of all loans were made in LMI CTs. In 1996, the bank made 49% of all small loans to businesses in LMI CTs throughout the three assessment areas. However, in low income CTs the bank made 25% of all loans compared to an average of eight percent for all banks. In the San Francisco assessment area, the bank made 44% of all loans in low income CTs compared to an average of 27% for all banks. The table below shows the Pacific Bank's loans by income of the census tracts compared to the demographics of the assessment area and aggregate reported data by all banks in the assessment area.

Table 2 Distribution of Small Business originations for January 1996 through September 1997 Within All Assessment Areas By Income Level of the Census Tracts								
Assessment area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	7%		23%		36%		32%	
Distribution% of Businesses (457,326 Total Nonfarm)	9%		22%		36%		32%	
Aggregate Data All Banks(1996)	9%		19%		34%		36%	
Loan Products	#	%	#	%	#	#	#	%
Pacific Bank Small loans to businesses	89	25%	64	18%	128	36%	71	21%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Distribution by Borrower's Income within the Assessment Area

The distribution of loans by borrower income is adequate.

Business demographics indicate that 75% of all businesses in the assessment area have revenues of less than \$1 million. We reviewed loans of less than \$1 million in size reported by the bank to ascertain the bank's lending to borrowers of different income. Of those loans reported, slightly more than half were to businesses with revenues of less than \$1 million.

Table 3 shows the percent of the Pacific Bank's loans to businesses with revenues of less than \$1 million compared to all banks and the business demographics in the assessment area. Aggregate data on all banks is skewed by the loans in the LA assessment area. In the San Francisco MSA, where the bank does the majority of its lending, 59% of all bank loans went to businesses with revenues of less than \$1 million.

Table 3 Distribution of Loans by Revenue of Business Within All Assessment Areas						
	Total		Revenues < \$1 million		Revenues > \$1 million	
	#	%	#	%	#	%
Pacific Bank Loans(1996)	181	100%	101	56%	80	44%
Aggregate Data on All Banks(1996)	116,884	100%	62325	53%	54559	47%
Demographic Distribution of Businesses in the Assessment Area	612,466	100%	457,326	75%	155,140	25%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Contacts with organizations representing small business in the assessment area indicate that small businesses have a need for small loans with flexible underwriting standards. Therefore, we consider loan size as an indicator of the bank's responsiveness to the needs of the small business community. Of the loans to businesses with revenues of less than \$1 million, only 35% were less than \$100 thousand in size while data for all banks in the assessment area indicates that 89% of loans were less than \$100 thousand in size. In 1997, the distribution improved, 59% of the Pacific Bank's loans were less than \$100 thousand in size. Table 4 on page 12 shows the percent breakdown by loan size of the Pacific Bank's loan to businesses with revenues of less than \$1 million compared to the breakdown by loan size of all banks' small loans to businesses in the assessment area. This data indicates that the bank is not as responsive to the needs of small businesses as other banks in the assessment area.

Table 4
Distribution of Small Business Originations in 1996
Within All Assessment Areas
By Loan Size

Loan Size	Pacific Bank All Loans 1996		Pacific Bank Loans to Bus. W/ Rev. < \$1 Million		All Banks (1996)	
	#	%	#	%	#	%
Less than \$100,000	47	26%	35	35%	105,656	89%
\$100,000 to \$250,000	48	27%	21	21%	6371	5
\$250,000 to \$1,000,000	86	48%	45	45%	6698	6
Total	181	100%	101	100%	118,725	100%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council and bank reported small business data.

Community Development Lending

The bank has a strong level of community development loans. The bank made six loans totaling \$28.5 million that directly benefited bank's assessment areas. Several of these projects involved negotiations with both public and private financial entities and community groups to bring the project to completion. Please see the conclusions under the individual MSAs for more detail on individual community development lending projects.

Product Innovation and Flexibility

In 1996 the bank created the Directors' Flexible Loan Fund and the Small Business Lending Unit to provide funds and expertise to specifically address the needs of small businesses and economically distressed areas. The funds are earmarked for job training, working capital, and equipment purchases and repair. Additionally, the funds are underwritten with more flexible lending criteria. The Small Business Lending Unit also targets neighborhood economic development organizations to improve its exposure among small businesses in LMI areas.

INVESTMENT TEST

To assess The Pacific Bank's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives with community development.

Conclusions:

- The bank has a low level of community development investments.
- Investments were responsive to community needs.
- Several investments represent a high degree of complexity

Investment and Grant Activity

The bank has a low level of qualified community development investments in the assessment areas. The qualified investments represent less than 1% (.4%) of total equity capital. The bank's qualified investments consist of one investment for \$200 thousand in an affordable housing finance intermediary and nine grants totaling \$92 thousand. For more information on qualified investments, please see the discussion of qualified investments under the Investment Test section for each MSA.

Responsiveness to Credit and Community Development Needs

The investments, although small, show a good responsiveness to the needs of the community. All investments support the needs of very small businesses through education or start up business services.

SERVICE TEST

In assessing The Pacific Bank's performance under the Service Test, we focused on the accessibility of its delivery systems; changes in branch locations; reasonableness of its business hours and services in meeting the needs of its assessment areas; and, level of community development services.

Conclusions:

- Services are relatively accessible to all portions of the assessment area
- There have been no branches opened or closed in LMI CTs
- Services do not vary in a way that inconveniences any portion of the assessment area
- The institution provides a reasonable level of community development services in the San Francisco assessment area. Community development services in the Los Angeles and Orange County MSAs are limited.

Retail Banking Services

The bank has seven branch offices throughout its assessment areas. There have been no branch closings during the assessment period. During the assessment period, the bank acquired Burlingame Bank and Trust and added the branch in a middle income CT on 350 Primrose as a result of the acquisition. The bank has ATM machines at all branches except Geary Boulevard in San Francisco and the Los Angeles branch. The branches are reasonably accessible to essentially all portions of the assessment area except for the Los Angeles branch which is located in an office building near downtown Los Angeles with very little visibility and is only accessible to a limited portion of the assessment area. The San Francisco branches are concentrated in the downtown financial district. The San Mateo branches are in the City of Burlingame in the northern section of the San Mateo County. Services do not vary in a way that inconveniences part of the assessment area. Customers of The Pacific Bank can access account information by telephone 24 hours a day and transfer funds between accounts.

Community Development Services

The service provided by the bank indicates a good responsiveness to the needs of the community. Employees serve on several boards and provide financial services to organizations meeting the needs of the community. The services represent a contribution of at least 287 hours of employee time. Please see the discussion of community development services under the service test conclusions for each MSA.

Metropolitan Statistical Area

Conclusions with Respect to Performance Tests in the San Francisco MSA.

The bank's performance in the San Francisco MSA is analyzed in the context of the San Francisco and San Mateo assessment areas within this MSA. Please refer to the **Description of the Bank's Assessment Areas** for more detail.

The bank's CRA performance within the San Mateo and San Francisco assessment areas has the greatest impact on The Pacific Bank's overall rating. The two assessment areas have been the primary focus of the bank's lending, investment and service activities. Seven of the bank's eight branches are located within the assessment areas. The total dollar amount of community development loans in these assessment areas is 57% of the total for all the assessment areas. Qualified investments in the assessment areas are 96% of total qualified investments.

Overall, the Pacific Bank's performance in the MSA is reasonable. The summary conclusions for performance in the San Francisco MSA follow:

- The bank has a good volume of loans in the assessment area. The bank's penetration of loans throughout the assessment area is good. The distribution of loans to business of different sizes is adequate. Of the loans to businesses with revenues of less than \$1 million, only 35% were less than \$100 thousand in size while data for all banks in the assessment area indicates that 88% of loans were less than \$100 thousand in size.
- The level of community development lending is very good. The bank made four loans for \$13 million to redevelop LMI CTs or provide affordable housing.
- The level of qualified community development investments is low. Although they represent a good responsiveness to community development needs.
- Services are reasonably accessible to all portions of the assessment area and do not vary in a way that inconveniences a portion of the assessment area. The level of community development services is good.

LENDING TEST

In assessing lending performance, we focused on The Pacific Bank's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses; community development lending; and, product flexibility.

Conclusions:

- The bank's penetration of loans throughout the assessment area is good. Forty-three percent of all small loans to businesses were made in LMI CTs.
- The distribution of loans to business of different sizes is adequate. Of the loans to businesses with revenues of less than \$1 million, only 35% were less than \$100 thousand in size while data for all banks in the assessment area indicates that 88% of loans were less than \$100 thousand in size.

- The level of community development lending is very good. The bank made four loan for \$13.5 million to redevelop census tracts or provide affordable housing.

Lending Activity

The volume of small loans to businesses made by the bank is good. In 1996, the bank was the tenth largest volume lender of small loans to businesses in the two assessment areas in the MSA. Although, the bank had less than 1% of all bank deposits in these areas.

Assessment Area Concentration

In 1996 and 1997 in the assessment areas within the San Francisco MSA, the bank made a total of \$98 million in small loans to businesses from a deposit base of \$388 million.

Geographic Distribution of Loans within the Assessment Area

The bank's distribution of loans to LMI CTs is good. In 1996 and 1997, 43% of all of the bank's small loans to businesses were in LMI CTs. Information on the demographics of the businesses in the area indicates that 41% of all small businesses in the two assessment areas are located within LMI CTs. 1996 lending data for all banks in the two assessment areas indicate that 38% of all loans were made in LMI CTs. In 1996, the bank made 43% of all small loans to businesses in LMI CTs.

Table 5 below shows the Pacific Bank's loans by income of the census tracts compared to the demographics of the assessment area and aggregate reported data by all banks in the assessment area.

Table 5 Distribution of Small Business originations for January 1996 through September 1997 Within the San Francisco MSA By Income Level of the Census Tracts								
Assessment area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	7%		27%		19%		28%	
Distribution% of Businesses (52,456 Total Nonfarm)	19%		22%		37%		22%	
Aggregate Data All Banks(1996)	16%		22%		36%		25%	
Loan Products	#	%	#	%	#	#	#	%
Pacific Bank Small loans to businesses	88	27%	52	16%	128	36%	65	20%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Distribution by Borrowers' Income within the Assessment Area

The distribution of loans by borrower income is adequate.

Business demographics indicate that 74% of all businesses in the assessment area have revenues of less than \$1 million. We reviewed loans of less than \$1 million in size reported by the bank to ascertain the bank's lending to borrowers of different income. Of those loans reported, slightly more than half were to businesses with revenues of less than \$1 million. Table 6 shows the percent of the Pacific Bank's loans to businesses with revenues of less than \$1 million compared to all banks and the business demographics in the assessment area.

Table 6 Distribution of Loans by Revenue of Business Within the San Francisco MSA						
	Total		Revenues < \$1 million		Revenues > \$1 million	
	#	%	#	%	#	%
Bank Loans(1996)	173	100%	99	57%	74	43%
Aggregate Data on All Banks(1996)	15,856	100	9,330	59	6,526	41
Demographic Distribution of Businesses in the Assessment Area	70,978	100	52,456	74	18,522	26

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Of the loans to businesses with revenues of less than \$1 million , only 35% were less than \$100 thousand in size while data for all banks in the assessment area indicates that 88% of loans were less than \$100 thousand in size. In 1997, the distribution improved, 61% of the Pacific Bank’s loans were less than \$100 thousand in size.

Table 7 below shows the percent breakdown by loan size of the Pacific Bank’s loan to businesses with revenues of less than \$1 million compared to the breakdown by loan size of all banks’ small loans to businesses in the assessment area. This data indicates that the bank is not as responsive to the needs of small businesses as other banks in the assessment area

Table 7 Distribution of Small Business Originations in 1996 Within the San Francisco MSA By Loan Size						
	Pacific Bank All Loans 1996		Pacific Bank Loans to Bus. W/ Rev. < \$1 Million		All Banks (1996)	
	#	%	#	%	#	%
Less than \$100,000	47	27%	35	35%	14,186	88%
\$100,000 to \$250,000	45	26%	22	21%	983	6
\$250,000 to \$1,000,000	81	47%	43	43%	949	6
Total	173	100%	100	100%	16,118	100%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council and bank reported small business data.

Community Development Lending

The bank’s level of community development loans is very good. During the period of review, the bank made a total of five loans for \$13 million. In the San Mateo assessment area, the bank made one loan of \$7 million to finance a redevelopment project in downtown Redwood City. The project is a partnership between the Mezes Group and the Redwood City Redevelopment Agency. The project is a 56 thousand square foot office building in a downtown low income census tract designated for redevelopment. In the San Francisco assessment area, the bank lent \$2 million to the Pius Lee Foundation to refinance the debt incurred for seismic rehabilitation of a mixed use building containing 58 single occupancy units for LMI tenants. The bank lent \$4 million to fund renovation and refinance existing debt on a mixed use property of which more than 50% is used for services that benefit the LMI residents of the area. \$275 thousand lent to fund tenant improvement and refinance existing debt on a commercial space adjacent to the Valencia Condominium Development. The space will provide neighborhood services such as child care for the residents of the predominately LMI condominium development.

An additional \$1 million in funds over two years was provided to the Community Economic Development Lending Initiative(CEDLI) and the Low Income Housing Fund(LIHF). These organizations fund projects that impact a larger area that includes the San Francisco Assessment area The bank extended a \$250 thousand line of credit to CEDLI in 1996. The line was renewed in 1997. The bank extended a \$250 thousand line of credit to LIHF in 1996. In 1997, the bank refinanced and increased the line to \$500 thousand. The money to CEDLI was used to provide financing to support small business and community economic development activities which fall outside of normal bank lending practices. The bank also participates directly in other loans originated by CEDLI The money to LIHF is used assist in the funding of projects which will provide affordable housing for the very low income population.

Product Innovation and Flexibility

In 1996, the bank created the Directors' Flexible Loan Fund and the Small Business Lending Unit to provide funds and expertise to specifically address the needs of small businesses and economically distressed areas. The funds are earmarked for job training, working capital, and equipment purchases and repair. Additionally, the funds are underwritten with more flexible lending criteria. The Small Business Lending Unit also targets neighborhood economic development organizations to improve its exposure among small businesses in LMI areas.

INVESTMENT TEST

To assess The Pacific Bank's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives with community development.

Conclusions:

- The bank has a low level of qualified community development investments.
- Investments made were responsive to community development needs.
- The structure of the qualified investment has a high level of complexity.

Investment and Grant Activity

The bank has a low level of qualified community development investment in the assessment areas. The bank serves an urban area with numerous opportunities for community investment. Ninety six percent of the bank's total qualified investments were made in the San Francisco MSA. The investments equal .4% of total equity capital. The bank made a grant of \$29 thousand to the Lenders for Community Development community development corporation and a \$200 thousand investment in the North Bay Ecumenical Homes CASA program that provides flexible financing for low income first time home buyers. The bank has made an additional four investments totaling \$27 thousand in the assessment area and a grant of \$25 thousand to the California Economic Development Initiative that benefits the State of California and includes the assessment area.

Responsiveness to Credit and Community Development Needs

The investments, although low in volume, show a good responsiveness to the needs of the community. All investments support the needs of very small business through education or start up business services.

Community Development Initiatives

The North Bay Ecumenical Homes CASA program illustrates a high level of complexity and innovation for the bank. Bank funds are used with two other loans provided by public entities and a 5% down payment from the borrower. Repayment on the investment comes from a shared appreciation program where the homeowner and the bank agree to share any appreciation in the dwelling when it is sold. The bank has worked with the CASA program and the City of San Mateo to develop underwriting and packaging procedures and to market the program.

SERVICE TEST

In assessing The Pacific Bank's performance under the Service Test, we focused on the accessibility of its delivery systems; changes in branch locations; reasonableness of its business hours and services in meeting the needs of its assessment areas; and, level of community development services.

Conclusions:

- Services are relatively accessible to all portions of the assessment area
- There have been no branches opened or closed in LMI CTs. The acquisition of Burlingame Bank and Trust and its branches had no affect on LMI CTs.
- Services do not vary in a way that inconveniences a portion of the assessment area
- The institution provides a reasonable level of community development services.

Retail Banking Services

The bank has four branch offices in the San Francisco assessment area and two branch offices in the San Mateo assessment area. The San Mateo branches are located in the City of Burlingame in middle income CTs in the northern section of the county. Three of the San Francisco branches are located in low income CTs in the downtown financial district. The fourth is located on Geary Boulevard in San Francisco in a middle income CT west of the downtown financial district. During the assessment period, the bank acquired Burlingame Bank and Trust and the branch on 350 Primrose in Burlingame. There have been no branch closings during the assessment period. The hours of operation are from 9:00 a.m. to 4:00 p.m., Monday through Thursday. All branches are open to 5:00 p.m. on Friday except for the El Camino Real branch in Burlingame and the Geary Boulevard Branch in San Francisco which are open until 6:00 on Friday and from 9:00 a.m. to 1:00 p.m. on Saturday. The bank has ATM machines at all locations except for the Geary branch. Customers of The Pacific Bank can access account information by telephone 24 hours a day and can transfer funds between accounts. The branches are reasonably accessible to essentially all portions of the assessment area. Services do not vary in a way that inconveniences part of the assessment area.

Community Development Services

The service provided by the bank indicates a good responsiveness to the needs of the community. Employees serve on several boards and provide financial services to organizations meeting the needs of the community. The services in the assessment areas represent a contribution of at least 269 hours of employee time. A partial list of these services follows:

- Small Business Lending Unit - lending groups with a focus on small businesses in under served areas. Account officers also advise various neighborhood economic groups and work with these groups to maintain contacts with the small businesses in various LMI neighborhoods.
- The bank sponsored and participated in the Neighborhood Business Expansion Fair which provided small emerging businesses with the opportunity to obtain information on a variety of subjects such as permit and licensing, loans and financing, tax issues, and other small business resources. This event was held in 1996 and 1997.

- The bank participated in Small Business Development Center Workshop sponsored by the San Francisco Small Business Development Center and the Urban Economic Development Center. The event was attended by 150 individuals and provided seminars on various aspects of small business banking needs. Bank employees conducted seminars and participated in panel discussions with small business owners.
- A bank employee serves on the Advisory Committee of the San Francisco Renaissance Finance Resource Center. The resource center assists new entrepreneurs and established business owners in preparing for loans and offers training, support and loan packaging. The employee assists the organization to better understand the needs of its small business clients.
- A bank employee serves on the Advisory Committee of the CRA Round table. The employee provides expertise to assist the organization in its goals of providing better financial services and educating community residents and business owners regarding access to credit and banking services.
- A bank employee was a panel member for a seminar on “Obtaining capital for your business - Meet the banker.” The audience included advocates for minority business development and small business enterprises.
- A bank employee provided financial expertise to participants at the Meet the Lender Workshop sponsored by the Small Business Administration.
- A bank employee provides banking expertise to the Holy Family Day Home which provides day care services for school age children of the working poor and homeless.
- A bank employee provides banking expertise to the Housing Task Force of San Mateo Economic Development Association.

Conclusions with respect to Performance Tests in Los Angeles and Orange County MSAs.

The bank's CRA performance within the Orange County and Los Angeles MSAs has a limited impact on The Pacific Bank's overall rating based on the bank's performance in this area. The Pacific Bank has only one branch to serve both MSAs. The total dollar amount of small business lending in the Los Angeles and Orange County MSAs represents only 12% of the bank's total small business lending in all assessment areas.

The bank's performance in the Los Angeles and Orange County MSAs is analyzed in the context of the assessment area within this MSA. Please refer to the **Description of the Bank's Assessment Areas** for more detail.

Overall, the Pacific Bank's performance in the MSA is adequate. The summary conclusions for performance in the Los Angeles and Orange County MSAs follow;

- The level of lending activity is low. However, the distribution of loans within the assessment area is excellent.
- The distribution of loans among businesses of different sizes is weak.
- The level of community development lending is good. The bank extended a line of credit for \$10 million to finance a business engaged in small business trade finance. The lien was increased to \$15 million during the exam. The bank made additional loans to statewide community development organizations with projects within the assessment area.
- The level of community development investments is low.
- Delivery systems are accessible to a limited portion of the bank's assessment area.

LENDING TEST

In assessing lending performance we focused on: The Pacific Bank's lending activity, assessment area concentration, geographic distribution of loans, borrower profile, responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses, community development lending, and product flexibility.

Conclusions:

- The level of activity is good. The bank made a total of \$15 million in small loans to businesses from a deposit base of only \$13 million.
- The distribution of loans within the assessment area is excellent. Forty-seven percent of all loans are in LMI CTs.
- The distribution of loans among businesses of different sizes is weak. In 1996 and 1997 combined, 11% of small loans to businesses were less than \$100 thousand in size and 14% were to businesses with revenues of less than \$1 million.
- The level of community development lending is good. The bank extended a line of credit for \$10 million to finance a business engaged in small business trade finance. The bank made additional loans to statewide community development organizations with projects within the assessment area.

Lending Activity

The level of lending activity is good. In 1996 and 1997, within the Southern California assessment area, the bank made a total of \$15 million in small loans to businesses from a deposit base of \$13 million.

Geographic Distribution of Loans within the Assessment Area

The bank’s distribution of loans in LMI CTs is excellent. In 1996 and 1997, thirteen or 46% of all small loans to businesses were in LMI CTs. Information on the demographics of the businesses in the area indicates that 30% of all businesses in the county are located within LMI CTs. 1996 lending data for all banks indicates that in Los Angeles and Orange counties, 26% of all loans were made in LMI CTs. In 1996, the bank made six or 75% of all small loans to businesses in moderate income CTs and none in low income CTs. Table 8 shows the Pacific Bank’s loans by income of the census tracts compared to the demographics of the assessment area and aggregate reported data by all banks in the assessment area.

Table 8 Distribution of Small Business originations for January 1996 through September 1997 Within the Los Angeles and Orange County MSAs By Income Level of the Census Tracts								
Assessment area Data	Low-Income		Mod-Income		Middle-Income		Upper-Income	
Census Tracts	8%		23%		35%		33%	
Distribution% of Businesses (404,870 Total Nonfarm)	8%		22%		32%		33%	
Aggregate Data All Banks(1996)	7%		19%		33%		40%	
Loan Products	#	%	#	%	#	#	#	%
Pacific Bank Small loans to businesses	1	4%	12	43%	9	32%	6	21%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Distribution by Borrowers’ Income within the Assessment Area

The distribution of loans by borrower income is weak.

Business demographics indicate that 74% of all businesses in the assessment area have revenues of less than \$1 million. We reviewed loans of less than \$1 million in size reported by the bank to ascertain the bank’s lending to borrowers of different income. Of those loans reported, less than half (25%) were to businesses with revenues of less than \$1 million.

Table 9 shows the percent of the Pacific Bank's loans to businesses with revenues of less than \$1 million compared to all banks and the business demographics in the assessment area.

Table 9 Distribution of Loans by Revenue of Business Within Los Angeles and Orange County MSAs						
	Total		Revenues < \$1 million		Revenues > \$1 million	
	#	%	#	%	#	%
Bank Loans(1996)	8	100%	2	25%	6	75%
Aggregate Data on All Banks(1996)	101,028	100%	52,995	52%	48,033	48%
Demographic Distribution of Businesses in the Assessment Area	541,488	100%	404,870	75%	136,618	25%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council, bank reported small business data and Dunn and Bradstreet Business Demographic Data..

Of the loans to businesses with revenues of less than \$1 million , none were less than \$100 thousand in size while data for all banks in the assessment area indicates that 89% of loans were less than \$100 thousand in size. In 1997, no loans were made that were less than \$100 thousand in size. Table 11 shows the percent of the Pacific Bank's loans to businesses with revenues of less than \$1 million compared to all banks and the business demographics in the assessment area. This data indicates that the bank is very unresponsive to the needs of small business in the MSA.

Table 10 Distribution of Small Business Originations in 1996 Los Angeles Orange County MSA By Loan Size						
	Pacific Bank All Loans 1996		Pacific Bank Loans to Bus. W/ Rev. < \$1 Million		All Banks (1996)	
	#	%	#	%	#	%
Less than \$100,000	0	0	0	0	91,470	89%
\$100,000 to \$250,000	3	0	0	0	5,388	5
\$250,000 to \$1,000,000	5	100	2	100	5,749	6
Total	8	100	2	100	102607	100%

Source: Aggregate Small Business CRA data obtained from the Federal Financial Institutions Examination Council and bank reported small business data

Community Development Lending

The level of community development lending is good. The bank has extended a line of credit for \$10 million to World Trade Finance Inc. which in turn uses the money to finance import export transactions for small businesses under SBA,

Eximbank, or California Export Finance Organization (CEFO) guarantees. The line was increased to \$15 million during the examination. An additional \$1 million in funds over two years was provided to the Community Economic Development Lending Initiative (CEDLI) and the Low Income Housing Fund(LIHF). These organizations fund projects that impact a larger area that includes the Southern California Assessment area. The bank extended a \$250 thousand line of credit to CEDLI in 1996 and renewed the line in 1997. The money to CEDLI was used to provide financing to support small business and community economic development activities which fall outside of normal bank lending practices. The bank also participates directly in other loans originated by CEDLI. The bank extended a \$250 thousand line of credit to LIHF in 1996. In 1997, the bank refinanced and increased the line to \$500 thousand. The money to LIHF is used assist in the funding of projects which will provide affordable housing for the very low income population.

Product Innovation and Flexibility

In 1996, the bank created the Directors' Flexible Loan Fund and the Small Business Lending Unit to provide funds and expertise to specifically address the needs of small businesses and economically distressed areas. \$500 thousand in funds were earmarked for identified needs of very small business such as job training, working capital, and equipment purchases and repair. The funds are underwritten with criteria more flexible than the bank's standard lending criteria. Credit facilities can be offered to businesses with less than one year in operation. The Small Business Lending Unit also targets neighborhood economic development organizations to improve its exposure among small businesses in LMI areas. To date, \$229 thousand has been funded under this program.

INVESTMENT TEST

To assess The Pacific Bank's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives with community development.

Conclusions:

- The bank has a low level of investments
- Investments are responsive to community needs.

Investment and Grant Activity

The bank has a low level of investment activity within the assessment area. The bank serves an urban area with numerous opportunities for community investment. The bank has made three grants totaling \$11 thousand in the assessment area. The bank made an additional grant of \$25 thousand to the California Economic Development Initiative (CEDLI) which provides small business funding and services to enterprises within the State of California.

Responsiveness to Credit and Community Development Needs

The investments show a responsiveness to the needs of the community. All investments, although small, support the needs of very small business through education or start up business services.

SERVICE TEST

In assessing The Pacific Bank's performance under the Service Test, we focused on the accessibility of its delivery systems; changes in branch locations; reasonableness of its business hours and services in meeting the needs of its assessment areas; and, level of community development services.

Conclusions:

- Delivery systems are only accessible to a limited portion of the bank's assessment area.
- There have been no branches opened or closed in LMI CTs
- The institution provides a reasonable level of community development services.

Retail Banking Services

The bank has one branch office, which is located in a low income CT within the assessment area. There have been no branch openings or closings during the assessment period. The hours of operation are from 9:00 a.m. to 4:00 p.m., Monday through Thursday and 9:00 a.m. to 5:00 p.m. on Friday. The bank has no ATM in the assessment area. The branch is located in an office building near downtown Los Angeles with very little visibility and is only accessible to a very limited portion of the assessment area.

Community Development Services

The community development service provided by the bank indicates an adequate responsiveness to the needs of the community. Employees provide financial services to several organizations meeting the needs of the community. Bank employees recorded at least twelve hours of service to the assessment area. A list of these services follows;

- Small Business Lending Unit - Lending group with a focus on small businesses in under served areas. Account officers also advise various neighborhood economic groups. This service is offered in the assessment area, however, no loans have been made through the service in the assessment area.
- A bank employee serves on the Board of Directors and provides banking expertise to Unicentro CDC; a community-based lender dedicated to helping small businesses and entrepreneurs in the Pico - Union area in Los Angeles.
- A bank employee participates as a rotating banker in the Community Resource Center's Banker's Rotation Program which assists small businesses with loan development and packaging.

Fair Lending Review

During the examination of the Pacific Bank N.A., we performed a review of the bank's most recent Fair Lending self assessment using the OCC Fair Lending Examination Procedures. The review of the self assessment involved validating the sample through testing. We concurred with the conclusions, findings, procedures and recommendation. The bank did not identify any violations of the substantive provisions of the antidiscrimination laws and regulations. We also reviewed the bank's policies and procedures for Fair Lending compliance and found no deficiencies.

Appendix A: Scope of Examination

Our evaluation of The Pacific Bank's CRA performance covered the performance period beginning January 1996 through September 1997. We applied interagency procedures and guidelines for Large Retail Institutions in our review. Loan products evaluated were small loans to businesses and community development loans. We did not consider affiliate loans in this review. We reviewed the bank's performance under the lending, investment and service tests in the San Francisco, Los Angeles, and Orange County MSAs.