

PUBLIC DISCLOSURE

November 26, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bay Bank of Commerce
RSSD - 144968
1495 East 14th Street
San Leandro, California 94577**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION

Institution's CRA Rating: This institution is rated satisfactory.

Bay Bank of Commerce demonstrates an overall satisfactory level of performance under the Community Reinvestment Act, as measured by the small bank performance criteria. The bank maintains a satisfactory loan-to-deposit ratio and extends a substantial majority of its loans within its assessment area. Small business lending patterns also exhibited reasonable dispersion throughout the assessment area with no conspicuous gaps. The bank further supports local credit needs through its origination of community development loans.

PERFORMANCE CONTEXT

Description of Institution

In 1999, Bay Bank of Commerce (BBC) was acquired by Greater Bay Bancorporation. BBC is a \$300 million community bank headquartered in San Leandro, California, operating two offices in the cities of Hayward and San Ramon.

BBC is primarily a commercial lender targeting small- and medium-sized businesses throughout the eastern Bay Area. Although the bank does offer consumer and real estate mortgage loan products, they are a very small part of its business and extended primarily to existing business customers. As of September 30, 2001, BBC had total assets of \$300 million, total gross loans of \$127 million, and total deposits of \$163 million. The bank's lending portfolio is detailed in the following table.

Loan Type	Dollar Amount ('000s)	Percent of Total Loans
Commercial/Industrial and Non-Farm Non-Residential Real Estate	\$95,038	75%
Construction and Land Development	\$19,627	15%
Secured by 1-4 Family Residential Real Estate	\$9,515	7%
Multi-Family Residential Real Estate	\$1,606	1%
Consumer	\$1,597	1%
Other	\$15	<1%
Total Gross Loans	\$127,398	100%

There are no legal or financial impediments that would prevent the bank from helping to meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. Bay Bank of Commerce received a satisfactory rating at its previous CRA examination conducted as of October 1, 1997, by the Federal Deposit Insurance Corporation.

Description of Assessment Area

The bank's assessment area consists of Alameda County in its entirety and the central portions of Contra Costa County, including the cities of Alamo, Danville, Lafayette, Moraga, Orinda, San Ramon and Walnut Creek. Both counties are part of the Oakland, California Metropolitan Statistical Area (MSA),¹ located on the east side of the San Francisco Bay. They are two of nine counties that comprise the San Francisco Bay Area, one of the state's busiest urban areas.

Based upon 1990 census data, there are 355 census tracts in the assessment area. However, 21 of these have unknown median income levels and limited population levels (less than one percent of the population). Therefore, the CRA analysis is based on the remaining 334 tracts. The following table illustrates some of the census data broken down by income level.

¹ Refer to glossary for a definition of MSA.

Income Level	Census Tracts		Population		Families	
	Number	Percent	Number	Percent	Number	Percent
Low	47	14%	155,859	10%	34,987	9.4%
Moderate	67	20%	276,961	19%	60,923	16.4%
Middle	125	37%	578,890	39%	145,399	39.2%
Upper	95	28%	470,483	32%	130,061	35.0%
Total	334	100%	1,491,249 ²	100%	371,370	100%

According to the 1990 census, seven percent of families located in the bank's assessment area live below the poverty level. The majority of these families living below the poverty level are located in low- and moderate-income census tracts.

BBC's 0.37 percent market share of deposits ranks 25th out of 53 financial institutions operating within Alameda and Contra Costa Counties.³ The top three performers are large national banks or saving associations. The presence of a wide variety of banking outlets suggests that consumers and businesses have many options when choosing a financial institution.

Employment and Economic Conditions

Consistent with the entire Bay Area, both Alameda and Contra Costa Counties showed positive growth throughout 1999 and 2000 with the labor force and employment growing and unemployment rates declining. The availability of rapid transit and close proximity to major employment hubs have combined to attract more residents and companies in the past decade, many moving from more expensive sections of the western Bay Area to both Alameda and Contra Costa Counties. Despite these similarities, the two counties have differing economic bases. Alameda County is a major port for trade and is heavily influenced by business services mainly due to the spread of high-technology employment into the southern portions of the county. The central portion of Contra Costa County, while still dominated by the services industry, is primarily residential, commercial and light industrial.⁴

Despite the continued growth through 2000, by 2001 the San Francisco Bay Area was in the midst of a recession, primarily due to dot-com failures. Although the assessment area is not dominated by technology, the economic slowdown is having an impact in both of the counties, with employment decreasing primarily in the manufacturing and service industries. In addition, office vacancies are rising as demand slumps and office rents fall.⁵ As a result, unemployment rates also rose sharply in 2001 after continuing to fall throughout 2000.⁶

² Includes the 9,056 persons living in census tracts with unknown income levels.

³ Source: FDIC/OTS Summary of Deposits as of June 30, 2000.

⁴ Source: California Employment Development Department - Labor Market Information Division - County Snapshot.

⁵ Source: CB Richard Ellis - Market Outlook.

⁶ Source: California Employment Development Department.

Business Demographics

Dun and Bradstreet data for the year 2000 shows that small businesses dominate the market. Specifically, there are 68,843 businesses in the assessment area, of which 58,563 (85 percent) have gross annual revenues less than or equal to \$1 million. In addition, the majority of businesses have less than five employees, with services and retail trade making up the preponderance of business sectors. The following tables detail the business distributions within the assessment area.

Businesses by Size and Income Category					
Tract Income Level	Number of Businesses	Percent of Total Businesses	Businesses with Gross Annual Revenues <=\$1MM	Percent of Total Businesses with Gross Annual Revenues <=\$1MM	Businesses with Gross Annual Revenues <=\$1MM as a Percent of Total Businesses in Census Tract
Low	9,013	13%	7,482	13%	83%
Moderate	10,051	15%	8,820	15%	88%
Middle	27,702	41%	23,309	41%	84%
Upper	21,625	31%	18,264	31%	85%

Businesses by Sector		
Employment Sector	Number of Businesses	Percent of Businesses
Services	32,376	47%
Retail Trade	12,551	18%
Finance, Insurance and Real Estate	6,103	9%
Wholesale Trade	5,033	7%
Manufacturing	4,638	7%
Construction	4,259	6%
Transportation, Communication	2,454	4%
Agriculture	955	1%
All Other	474	1%

Conclusions

As detailed above, the current economic slowdown is causing job losses and unemployment to rise significantly. However, given the preponderance of small businesses in the market, credit for small businesses remains a major need. While demand for such loans was high during much of the review period, the recession has led to a tightening of credit standards at a time when there is lower business investment and revenues and ultimately lower loan demand in some cases. Nevertheless, community representatives emphasize a need for smaller dollar loans and long-term loans to businesses in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Bay Bank of Commerce's CRA examination was conducted based upon four of the five small bank performance criteria, which are provided below.

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio);
- Lending inside and outside the assessment area (Lending in Assessment Area);
- The distribution of lending to businesses of different sizes and borrowers of different income levels (Lending by Business Revenue and Borrower Income); and
- The dispersion of lending throughout the census tracts within the assessment area (Geographic Distribution of Loans).

BBC's responsiveness to consumer complaints was not evaluated because the bank has not received any CRA-related complaints since the previous evaluation.

The bank's predominant lending focus, small business lending, was the a basis for this evaluation. Due to limited activity, the bank's home mortgage loans reported in accordance with the Home Mortgage Disclosure Act (HMDA) were not considered. The sample period for the evaluation was July 1, 1999, through June 30, 2001. During this time, BBC originated 238 small business loans totaling \$47.9 million. These loans were first used to determine the concentration of the lending inside the assessment area. Only those loans extended inside the assessment area were used for geographic distribution evaluation. In order to assess lending to businesses of different sizes, 107 loans originated inside the assessment area were sampled for gross annual revenue. By using only those loans extended within the assessment area, the bank was evaluated on how well it is meeting the credit needs of its community.

Loan-to-Deposit Ratio

BBC's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. At 77.9 percent, the average loan-to-deposit ratio is generally consistent with its capacity to lend, with the demographic and economic factors in the area, and with other local lenders.

Lending in Assessment Area

BBC originated a substantial majority of its small business loans within the assessment area, which exceeds the standards for satisfactory performance. Specifically, 83 percent by number and 82 percent by dollar volume were originated within the assessment area.

Lending by Business Revenue and Borrower Income

BBC's small business lending record is adequate when considered in light of assessment area characteristics. According to Dun and Bradstreet, 85 percent of all businesses in the assessment area are small businesses. Yet, only 44 percent of BBC's small business loans were extended to small businesses. However, 58 percent of those loans to small business were extended in amounts of \$100,000 or less, specifically addressing the identified need for smaller dollar loans to small businesses.

Given the economics in the assessment area and the bank's business strategy, these small business distributions are adequate. Also, BBC's performance is consistent with both the aggregate market and with that of its competitors in the assessment area. Additionally, the bank continues its involvement in the California Capital Access Program (CalCAP). Under this program, lenders, in conjunction with the California Pollution Control Financing Authority, are encouraged to make loans that are somewhat riskier than conventional loans to small businesses whose operations affect the environment. CalCAP offers lenders a flexible instrument to meet the financing needs of California's small business sector. Since the previous examination, the bank participated in 41 CalCAP loans totaling \$7.4 million.

In addition to its small business lending record, since its previous CRA examination, BBC originated eight community development loans totaling \$16.7 million. All eight of these loans benefited affordable housing projects target to low- and moderate-income individuals.

Geographic Distribution of Loans

BBC's geographic distribution of small business loans reflects a reasonable dispersion throughout the assessment area. Lending patterns evidence a satisfactory record of serving the credit needs of small businesses in the assessment area, including those in low- and moderate-income areas. The geographic distribution of lending is depicted in the following table.

Tract Level Income	Percent of Tracts	Percent of Small Businesses	Number of Loans to Small Businesses	Dollar Volume of Loans to Small Businesses
Low	14%	13%	3%	1%
Moderate	20%	15%	16%	14%
Middle	37%	40%	55%	57%
Upper	28%	32%	26%	28%

As shown above, BBC's lending in moderate-income areas compares favorably with the distribution of businesses in these areas. However, the level of lending in low-income areas is significantly lower than the level of small businesses. Nevertheless, the bank's small business lending is reasonably concentrated in the areas surrounding its branch offices located in central and eastern Alameda County and central Contra Costa County. Conversely, the low-income geographies in the assessment area are primarily concentrated in western Alameda County, some distance from any BBC office. Even though many of these areas are not in close proximity to any of its offices, BBC is involved with the city of Oakland's Enterprise Zone in an effort to increase its lending in low-income areas. The Enterprise Zone program was developed by the

state of California for areas that are considered economically distressed and is comprised of a substantial majority (97 percent) of low- and moderate-income census tracts. These areas are targeted for certain state tax incentives in order to stimulate business and employment growth. Since its previous CRA examination, 16 of its small business loans totaling \$2.8 million are located within this Enterprise Zone.

Response to Complaints

Bay Bank of Commerce has not received any CRA-related complaints since its previous evaluation. Accordingly, the bank's performance under this category was not evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were identified during this examination that would indicate the bank engages in any type of illegal discrimination or discouragement in its lending activities.

GLOSSARY OF FREQUENTLY USED TERMS

Area Median Income (Median Income)	The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.
Assessment Area	A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).
Community Development	<ol style="list-style-type: none">(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.(2) Community services targeted to low- or moderate-income individuals.(3) Activities that promote economic development by financing business or farms, which have, gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.(4) Activities that revitalize or stabilize low- or moderate-income geographies.
Community Development Loan	A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank: <ol style="list-style-type: none">(1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and(2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
Consumer Loans	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
Census Tract	Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.
Family Income	Includes the income of all members of a family that are age 15 and older.
Families	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
Geographies	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
Household Income	Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.
Households	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
Housing Unit	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.

HUD Adjusted Median Income	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
Income Level	Includes low-income, moderate-income, middle-income and upper-income.
Low-Income	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
Median Income	See Area Median Income and HUD Adjusted Median Income.
Metropolitan Statistical Area (MSA)	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.
Middle-Income	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
Moderate-Income	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
Owner-Occupied Housing Unit	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
Qualified Investment	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Real Estate Mortgage Loan	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
Small Bank	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
Small Business	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
Small Business Loan	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
Upper-Income	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.