

PUBLIC DISCLOSURE

November 26, 2001

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Peninsula Bank of Commerce

RSSD - 16766

1001 Broadway

Millbrae, California 94030

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.

The overall CRA performance of Peninsula Bank of Commerce is satisfactory. The bank's qualified investments have had an outstanding impact relative to its capacity and the needs within the assessment area, particularly with respect to affordable housing and the economic development of low- and moderate-income geographies. Complementing the bank's investment performance is its record of lending and services provided. The bank's lending record reflects an adequate performance in meeting the credit needs of small businesses located in its assessment area. The level of community development services provided has promoted the financial literacy of area small businesses and consumers and the availability of social services in the area.

The following table shows the performance level of Peninsula Bank of Commerce with respect to the lending, investment, and service tests.

PENINSULA BANK OF COMMERCE			
PERFORMANCE LEVELS	PERFORMANCE TESTS		
	LENDING TEST*	INVESTMENT TEST	SERVICE TEST
OUTSTANDING		X	
HIGH SATISFACTORY	X		X
LOW SATISFACTORY			
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.*

PERFORMANCE CONTEXT

Description of Institution

Peninsula Bank of Commerce (PBC), a subsidiary of Greater Bay Bancorp, is a unit bank located in Millbrae, California. The bank offers a full range of banking products targeting professional firms and small- and mid-sized businesses located in San Mateo and San Francisco Counties. Although the bank does offer consumer loan products, these are primarily accommodation loans for its business clients. As of September 30, 2001, total assets were \$445 million, about half of which, \$235 million, was in gross loans and leases. The following table shows the mix of that loan portfolio, highlighting the bank's focus on commercial financing.

Loan Type	Dollar Amount ('000s)	Percent of Total Loans
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$138,629	59.1%
Construction	\$83,256	35.5%
Secured by 1-4 Family Real Estate	\$9,309	4.0%
Consumer	\$2,592	1.1%
Multifamily Real Estate	\$322	0.1%
All Other	\$204	0.1%
Farmland & Agriculture	\$166	0.1%
Total (Gross)	\$234,538	100.0%

The bank's single assessment area consists of the entire combined counties of San Francisco and San Mateo, California. Its previous Community Reinvestment Act examination was conducted as of November 1, 1999, and resulted in a satisfactory performance rating. The period of this review consists of the six calendar quarters from January 2000 through June 2001. During this period there were no legal or financial impediments preventing the bank from meeting the credit needs of its community, consistent with its size, resources, and the local economic conditions.

Description of Assessment Area

PBC's assessment area consists of San Francisco and San Mateo Counties in their entirety. The city and county of San Francisco is located on a peninsula between the Pacific Ocean and the San Francisco Bay. To its south is San Mateo County, which is located in the middle of a continuous urban area stretching from Santa Clara County in the south to San Francisco County in the north. They are two of nine counties that significantly contribute to the economy of the San Francisco Bay Area as an urban center.

There are 310 census tracts in the assessment area, 13 of which have unknown median incomes. Therefore, the CRA analysis is based on the remaining 297 tracts. The following table illustrates some of the area census data used to develop the performance context for the evaluation.

Income Level	Census Tracts		Population		Families	
	Number	Percentage	Number	Percentage	Number	Percentage
Low	23	8%	104,585	8%	64,643	21%
Moderate	60	20%	310,385	23%	57,618	19%
Middle	126	42%	629,888	46%	70,910	23%
Upper	88	30%	326,636	24%	114,824	37%
Total	297	100%	1,371,494	100%	307,995	100%

As shown in the table, upper-income families predominate in this assessment area with the remainder fairly evenly divided among the other income categories. Poverty levels are below the state average with 6.8 percent of all families below the poverty level compared to 9.3 percent of statewide families. Those living below the poverty level are concentrated in low- and moderate-income areas. Also concentrated in low- and moderate-income tracts are renters with rental costs greater than 30 percent of their income.¹

PBCs 0.42 percent market share of deposits ranks 24th out of 70 institutions operating within San Francisco and San Mateo Counties.² Based on these figures, PBC operates in a very competitive environment where it has a relatively small market share.

Housing

The lack of affordable housing continues to be one of the most critical needs in the Bay Area. California, particularly the Bay Area, remains one of the least affordable housing markets in the U. S. In the second quarter of 2001, the San Francisco metropolitan statistical area was the least affordable area in the country with only 6.7 percent of homes being affordable for a median income family.³ An example of why affordable housing continues to be such a critical problem is evidenced by events in San Mateo County. In 1999, San Mateo County added 15,000 new jobs but created only 1,700 units of new housing.⁴ Rental rates increased to such an extent that vacancy rates rose to 3.3 percent at the end of 1999 from a historic low of just one-percent. The rise in vacancy rates resulted from many renters being priced out of the market.⁵

The current recession has begun to ease the housing issue with rents and housing prices starting to decline. However, the core dynamics continue to exist and housing will continue to be a problem in the Bay Area for the foreseeable future.

¹ According to the Department of Housing and Urban Development guidelines, housing costs are considered affordable when they require no more than 30 percent of a low-income renter's income.

² Source: FDIC/OTS Summary of Deposits as of June 30, 2000.

³ Source: California Building Industry Association.

⁴ According to Human Investment Project for Housing statistics it takes about one unit of housing to house each 1.4 workers from jobs created.

⁵ Source: Human Investment Project for Housing.

Employment and Economic Conditions

The assessment area showed positive growth through 2000 with the labor force and employment growing and unemployment rates declining. Services dominated the employment in both counties with the business services component responsible for the largest share of new jobs.⁶ However, by 2001 the San Francisco Bay Area was in the midst of a recession, primarily due to dot-com failures. As a result the economy is suffering from a downturn in financial services and travel-related industries. Travel has fallen as the tech slump has sharply curtailed business travel to the area. In addition, office vacancies are rising and office rents are falling.⁷ As a result, unemployment rates also rose sharply in 2001 after continuing to decline in 2000.⁸ This recent rise in unemployment is attributable to the technology downturn, but job losses are widespread, extending from tech manufacturing and services to financial services and trade and transportation.

Business Demographics

Dun and Bradstreet data for the year 2000 shows that small businesses dominate the market, both in numbers of employees and revenue size. Approximately 85 percent of the 76,598 business have gross annual revenues of \$1 million or less, while 63 percent have less than five employees. This data also shows that services and retail trade make up the preponderance of business sectors. The following tables detail the business distributions.

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-Income	13,776	18%	11,544	18%	84%
Moderate-Income	16,295	22%	13,848	22%	85%
Middle-Income	27,912	37%	23,814	37%	85%
Upper-Income	17,724	23%	14,992	23%	84%

⁶ Source: California Employment Development Department - Labor Market Information Division - County Snapshot.

⁷ Source: Precis: METRO © Economy.com, Inc.

⁸ Source: California Employment Development Department.

Businesses by Sector		
Employment Sector	Number of Businesses	Percent of Businesses
Services	36,604	47.8%
Retail Trade	14,743	19.3%
Finance, Insurance and Real Estate	7,502	9.8%
Wholesale Trade	4,987	6.5%
Construction	4,095	5.4%
Manufacturing	3,990	5.2%
Transportation & Communication	3,242	4.2%
All Other	1,435	1.9%

Conclusions

As detailed above, the current economic slowdown is causing job losses and unemployment to rise significantly. While housing prices have declined somewhat, housing affordability remains a major issue. Also, 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, credit standards are tightening at the same time that there is lower business investment and revenues and ultimately lower loan demand in some cases. Nevertheless, community representatives emphasize the need for small dollar loans and technical assistance for small businesses and affordable housing programs and loans. In addition, there was an indicated need for community development services for low- and moderate-income individuals, particularly the homeless and women and children at risk.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF EXAMINATION

PBC's CRA examination was conducted using the large bank performance criteria. It consisted of an evaluation of the bank's performance under the lending, investment and service tests. The sample period for the lending test was July 1, 1999, through June 30, 2001. During that time the bank originated 122 small business loans totaling \$30 million. Activity under the service and investment tests was reviewed from January 1, 2000, through October 31, 2001.

LENDING TEST

PBC's overall performance under the lending test is high satisfactory. Lending activity reflects a good responsiveness to the assessment area's credit needs. The bank has a high percentage of its loans concentrated in the assessment area and makes a relatively high level of community development loans. There is an adequate distribution of loans to businesses of different sizes and an adequate responsiveness to the needs of very small businesses. The distribution of small business loans among census tracts of different income levels is adequate when considered in light of assessment area characteristics.

Assessment Area Concentration

A significant majority of small business loans were made within the assessment area. Specifically, 80 percent by number and 81 percent by dollar volume were originated within the two county area.

Lending Distribution by Geography

Based on the factors described below, the geographic distribution is adequate. As shown in the following table, PBC's geographic distribution of small business loans lags significantly behind the distribution of businesses and the aggregate market, particularly in low-income areas. However, the bank's small business lending is concentrated in the areas surrounding its only branch office in Millbrae, reaching into portions of the city of San Francisco. This reach does not, however, extend to a majority of the low- and moderate-income tracts, particularly the low-income tracts. There are no conspicuous gaps in the distribution and that distribution reaches a reasonable area given the bank's size and business strategy.

Tract Income Level	Percent of Tracts	Percent of Small Businesses	PBC Small Business Loans		Aggregate Market Small Business Loans	
			#	\$	#	\$
Low	8%	18%	1%	2%	13%	18%
Moderate	20%	22%	11%	14%	22%	23%
Middle	42%	37%	59%	51%	40%	35%
Upper	30%	23%	29%	33%	25%	25%

Lending Distribution by Business Size

The bank has responded adequately to the credit needs of small businesses in its assessment area. Within the assessment area 85 percent of businesses have gross annual revenues equal to or less than \$1 million. For the bank, 51 percent of its small business loans by number and 43 percent by dollar volume went to these small businesses. Given the economics in the assessment area and the bank's business strategy, this distribution is adequate. Additionally, 43 percent of its loans to small businesses were in amounts of \$100,000 or less, demonstrating a willingness to make the kinds of loans that are a pressing need of small businesses.

Community Development Lending

PBC makes a relatively high level of community development loans given its capacity and the needs in the marketplace. Since the previous examination, the bank has committed to eleven community development loans totaling \$10.6 million, of which \$10.1 million has been disbursed. Community contacts and various other sources have articulated that affordable housing and small business development are compelling needs in the bank's marketplace. All of the bank's loans contributed to these causes.

During the exam period the bank committed \$559,000 and disbursed \$84,000 to a community development corporation for its affordable housing and micro-business loan pools. Additional lending activity included:

- Funding a \$3.5 million loan for the development of a 13-unit mixed-use condominium project. Targeted occupants are small businesses and low- and moderate-income individuals, and the project is located in an enterprise zone in San Francisco.
- Providing a \$2.5 million loan to develop one 48-unit and one 32-unit live/work loft complex. Again, targeted occupants are small businesses and low- and moderate-income individuals, and the projects are located in a San Francisco enterprise zone.
- Financing the \$1.6 million development of a 30-room inn/suites in a moderate-income tract in San Bruno, providing employment for low- and moderate-income individuals.
- Providing \$2.9 million in financing for the development of 9 condominiums and 3 commercial properties targeted to small business and low- and moderate-income individuals in an enterprise zone in San Francisco.
- Providing a \$200,000, 10-year term loan to an organization that provides legal advice, education and representation to low-income children, families and seniors.

INVESTMENT TEST

PBC's performance under the investment test is outstanding. The bank's level of qualified investments and grant activity totaled \$9.4 million during the assessment period, of which \$9 million has been disbursed. The majority of its investments, \$8.6 million, were in mortgage-backed securities secured by mortgages in low- and moderate-income geographies. In addition, there are two noteworthy equity investments. One is a \$300,000 investment in a fund that enables financial institutions and corporations to fund land recycling projects (brownfields). Priorities are projects that create or retain jobs, create or preserve affordable housing, are located in disadvantaged communities, redevelopment areas or enterprise zones, and are sponsored by or include the participation of disadvantaged groups. The second project is a \$4,000 investment (total commitment is \$500,000) in a fund that invests in retail, office, commercial, industrial, multi-family, and select single-family housing opportunities that make a measurable impact on the economic and social revitalization of neighborhoods in 46 targeted low- and moderate-income communities in the San Francisco Bay Area.

Additionally, qualified donations totaled \$82,000. Approximately \$20,000 of this was in the form of dividend waivers and operating assessments to an organization that operates loan pools for affordable housing and micro-business loans. Also, \$45,000 was given to help provide legal advice, education and representation to low-income children, families and seniors. Two other grants went to an organization that provides low-income housing for disabled persons and to a foundation that provides money to purchase or rehabilitate low-income rental housing and homeless shelters and provides money to low-income individuals to enter or remain in the rental market.

The bank has provided an excellent level of qualified community development investments and grants, exhibiting an excellent responsiveness to credit and community development needs, such as the aforementioned affordable housing and small business development needs.

SERVICE TEST

PBC's performance under the service test is high satisfactory.

Retail Banking Services

The bank's retail banking services are reasonably accessible to the assessment area. The bank has only one branch office located in the city of Millbrae. As the bank is not a retail bank, its location is sufficient to service its business clientele. The hours of operation provide adequate access to banking services and are not inconvenient. The one office is open 9:00am to 4:00pm Monday through Thursday, and 9:00am to 5:00pm on Friday. In addition to its regular business hours, the bank has the following alternative delivery systems targeted to its business clientele:

- Telephone banking (inquiries and transfers)
- Courier services for businesses
- Direct deposit
- Bank by mail
- Night depository

Community Development Services

PBC provides a relatively high level of CRA-qualified community development services, relative to its capacity, to organizations throughout its assessment area. These services are generally targeted to organizations addressing the aforementioned assessment area needs such as affordable housing and technical assistance to small businesses. Overall, the bank provided about 31 hours of community development services a month over the review period. About half of the services related to the provision of financial services and technical assistance to small businesses and to promoting affordable housing. Specifically, they assist organizations seeking to revitalize downtown Millbrae and an organization developing low-income housing for disabled adults. Other services provided financial education and technical assistance to organizations providing services to low- and moderate-income individuals.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

PBC is in compliance with the substantive portions of the Fair Housing Act and the Equal Credit Opportunity Act, which set forth the anti-discrimination in lending requirements. No violations of a discriminatory nature were noted and no issues exist with regard to the bank's compliance with these laws that would negatively impact its CRA rating.

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.