

PUBLIC DISCLOSURE

June 17, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Business Bank of California

RSSD - 18863

140 South Arrowhead

San Bernardino, California 92408

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

Business Bank of California's overall performance under the Community Reinvestment Act (CRA) is satisfactory as measured by the Small Bank Performance Criteria. The loan-to-deposit ratio is reasonable with a substantial majority of loan originations inside its assessment areas. The dispersion of small business loans extended throughout the area was excellent and there were no conspicuous gaps in the lending patterns. Loans to businesses with gross annual revenues of \$1 million or less evidenced good penetration and responsiveness to community credit needs.

PERFORMANCE CONTEXT

Description of Institution

Business Bank of California is a \$604 million institution, headquartered in San Bernardino, California, and is a wholly owned subsidiary of Business Bancorp, which is headquartered in San Rafael, California. Business Bank of California is the result of a merger of the former Business Bank of California and Metro Commerce Bank as of January 1, 2002.

The bank operates ten full-service offices and one deposit taking drive-up facility in Southern California. It also has five full service offices in Northern California. Two of these branches were opened during the exam period; the San Francisco office in January, 1998, and the Petaluma branch in June, 1999. The bank is primarily a commercial lender and aims to serve the credit and service needs of small- to-medium-sized businesses.¹ Strategically, management seeks to distinguish itself, beyond its loan products, through the creation of an ongoing relationship rather than a transaction-based banking relationship. Consumer loan products are mainly extended on an accommodation basis and account for only a small percentage of the loan portfolio.

A variety of loan products are offered to businesses and individuals, including SBA, commercial real estate, and residential construction loans. The bank's loan portfolio as of March 31, 2002, is detailed in the following table:

Loan Type	Dollar Amount ('000s)	Percent of Total
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$287,751	74.7%
Construction	\$68,238	17.7%
Secured by 1-4 Family Residential Real Estate	\$16,191	4.2%
Consumer	\$9,389	2.4%
Multifamily Housing	\$2,330	0.6%
Other	\$1,083	0.3%
Farmland & Agriculture	\$212	0.1%
Total (Gross)	\$385,194	100%

Business Bank of California has designated five assessment areas comprised of the partially contiguous areas of Alameda, Los Angeles, Marin-Sonoma, Riverside, San Bernardino, San Francisco, and San Mateo Counties. These assessment areas are situated as follows:

- Portions of Alameda County, which is part of the Oakland MSA 5775.
- Portions of Marin County, which is part of the San Francisco MSA 7360 and portions of Sonoma County, which is part of the Santa Rosa MSA 7500.
- Portions of Riverside and San Bernardino County, which is part of the Riverside-San Bernardino MSA 6780 and portions of Los Angeles County which is part of the Los Angeles-Long Beach MSA 4408.
- Portions of San Francisco County, which is part of the San Francisco MSA 7360.
- Portions of San Mateo County, which is also part of the San Francisco MSA 7360.

¹ Businesses with gross annual revenues of \$1MM - \$10MM.

Business Bank of California’s previous Community Reinvestment Act examination, conducted by the Federal Deposit Insurance Corporation (prior to the merger with Metro Commerce Bank), as of October 18, 1999, resulted in an outstanding performance rating. Metro Commerce Bank’s previous CRA examination, conducted by the Federal Reserve Bank of San Francisco as of December 31, 1997, resulted in a satisfactory rating. Currently, there are no legal impediments or financial constraints which would prevent the bank from extending credit throughout its assessment areas consistent with its business strategy, size, financial resources, and local economic conditions.

Description of Assessment Areas

The performance evaluation is based upon a full-scope review of banking activities in the San Bernardino-Riverside-Los Angeles and Marin-Sonoma assessment areas, accounting for 80 percent of the bank’s total lending within its five assessment areas. Accordingly, lending activity in these areas received primary consideration when arriving at the overall CRA assessment. Given the low lending volume for the remaining three assessment areas, limited scope reviews were performed for the Alameda, San Francisco, and San Mateo assessment areas to ensure that activities in these regions were consistent with overall performance.

Marin-Sonoma Assessment Area

The Marin-Sonoma assessment area, which is due north of San Francisco, includes substantially all of Marin County and the southern portion of Sonoma County. This area has 76 census tracts, of which eight (11 percent) are moderate-income, 37 (49 percent) are middle-income, and 31 (40 percent) are upper-income. The assessment area contains no low-income census tracts.

Small businesses, defined as businesses with gross annual revenues of \$1 million or less, represent 87 percent of total businesses. Illustrated in the following table is a segmentation of businesses, by census tract, within the assessment area.

Census Tract Income Levels	Census Tracts		Dun & Bradstreet Data			
	#	%	Small Businesses		Total Businesses	
			#	%	#	%
Moderate	8	11%	2,413	10%	2,924	10%
Middle	37	49%	12,717	51%	14,674	51%
Upper	31	40%	9,680	39%	11,002	39%
Total	76	100%	24,810	100%	28,600	100%

According to the 2000 census data, Marin and Sonoma County had a combined population of 705,903; an increase of 8 percent for Marin County and 18 percent for Sonoma County since the 1990 census period.² The 2002 HUD-adjusted median family income for Marin County is \$86,100 and \$63,400 for Sonoma County.³ The following table reflects the distribution of families by income level.

² Source: County QuickFacts from the US Census Bureau – www.quickfacts.census.gov.

³ Source: www.ffiec.gov/hmda/censusproducts.htm#msaincome.

Income Level	Total Families⁴	Percent of Families
Low-Income	16,191	15%
Moderate-Income	18,369	17%
Middle-Income	24,828	23%
Upper-Income	49,365	45%

Although the area has felt the negative effects of the recent statewide recession those effects were less pronounced than in most areas. The unemployment rate in the assessment area was considerably lower than that of the State, partly due to strong local economies. The 2000 unemployment rate for Marin County (1.7 percent) and Sonoma County (2.6 percent) was below California's rate of 4.9 percent.⁵ The service sector is the dominant employer in both counties. When combined with retail and government, these three sectors account for 74 percent of total employment in Marin County.⁶ In Sonoma County, the services, retail trade, and manufacturing sectors accounted for 63 percent of total employment.⁷

Riverside-San Bernardino-Los Angeles Assessment Area

The Riverside-San Bernardino-Los Angeles Assessment Area is quite different from the area mentioned above due, in part, to the differences in proximity and the nature of their respective economies. The area stretches across the western part of Los Angeles County and extends further west to include portions of San Bernardino and Riverside Counties. It contains 245 census tracts, of which ten (4 percent) are low-income, 56 (23 percent) are moderate-income, 115 (47 percent) are middle-income, and 62 (25 percent) are upper-income.⁸

Small businesses, defined as businesses with gross annual revenues of \$1 million or less, represent 85 percent of total businesses. Illustrated in the following table is a segmentation of businesses, by census tract, within the assessment area.

Census Tract Income Levels	Census Tracts		Dun & Bradstreet Data			
	#	%	Small Businesses		Total Businesses	
			#	%	#	%
Low	10	4%	1,534	2%	1,815	2%
Moderate	56	23%	14,444	20%	17,168	21%
Middle	115	47%	35,327	50%	41,611	49%
Upper	62	25%	20,075	28%	23,836	28%
N/A	2	1%	72	0%	90	0%
Total	245	100%	71,452	100%	84,520	100%

The assessment area experienced strong businesses and population growth, making it one of the fastest growing metropolitan economies in the country. According to 2000 census data, Riverside and San Bernardino County had a combined population of 3,254,821 which reflects an

⁴ Source: 1990 Census Data.

⁵ Source: County Snapshots - www.calmis.ca.gov.

⁶ Ibid.

⁷ Ibid.

⁸ Thirteen census tracts fell within the eastern portion of Los Angeles County. For the purposes of accuracy, economic information including, unemployment, median housing income and population for Los Angeles County is not included in the assessment area description.

increase of 32 percent for Riverside County and 21 percent for San Bernardino County since the 1990 census period.⁹ The rate of increase is partly attributable to the flow of businesses and households into the area from Southern California. The 2002 HUD-adjusted median family income for both counties is \$50,300.¹⁰ The following table reflects the distribution of families by income level.

Income Level	Total Families¹¹	Percent of Families
Low-Income	108,393	20%
Moderate-Income	91,799	16%
Middle-Income	127,828	23%
Upper-Income	230,259	41%

During the recent recession key economic indicators for the region, such as unemployment, have tracked the rest of the State. The 2000 unemployment rate for Riverside County (5.5 percent) and San Bernardino County (4.8 percent) were comparable to California’s rate of 4.9 percent.¹² Since that period, the economic slowdown that gripped the State has caused California’s unemployment rate (along with other local economies) to increase significantly, reaching 6.5 percent in early 2002.¹³ The service, retail trade and government sectors are the dominant employers for both counties accounting for 65 percent of total employment for both.¹⁴ Based on recent statewide data, of these three sectors, the impact of the recession was most pronounced on the service sector followed by retail and government respectively.

Conclusion

Although effective loan demand is the result of various micro- and macroeconomic factors, business conditions for both assessment areas are relatively healthy when compared with the State. Furthermore, the characteristics affecting effective demand for credit may vary considerably between the bank’s two primary assessment areas. However, based on recent demographic and economic data along with interviews with community representatives, the major credit needs in the communities are working capital and equipment financing which include small dollar loans and lines of credit. In addition, service-related needs include technical assistance for early-stage businesses.

⁹ Source: County QuickFacts from the US Census Bureau – www.quickfacts.census.gov.

¹⁰ Source: www.ffiec.gov/hmda/censusproducts.htm#msaincome.

¹¹ Source: 1990 Census Data.

¹² Source: County Snapshots - www.calmis.ca.gov.

¹³Source: Western Economic Developments, www.frbsf.org.

¹⁴Source: County Snapshots - www.calmis.ca.gov.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Business Bank of California's performance under the Community Reinvestment Act was reviewed based upon four of the five small institution performance criteria. These include the following:

- Loan volume in comparison to its deposits (Loan-to-Deposit Ratio)
- Lending inside and outside its assessment area (Lending in Assessment Area)
- Dispersion of lending throughout the census tracts or geographic areas within the assessment area (Geographic Distribution of Loans)
- Distribution of lending to businesses of different sizes (Lending by Business Revenue)

Small business lending was the focus of this evaluation as they comprise the majority of the loan portfolio. A total of 476 small business loans, originated between April 1, 2000, and March 31, 2002, was included in the analysis. Only those loans in the assessment areas were used to determine the volume of lending within the assessment areas.

Since the majority of lending was concentrated within two assessment areas, examiners focused their review on the Marin-Sonoma and San Bernardino-Riverside-Los Angeles assessment areas. Consequently, a limited scope review of activities was performed for the San Mateo, Alameda, and San Francisco assessment areas. A cursory review of lending patterns did not reveal any trends inconsistent with performance in the Marin-Sonoma and San Bernardino-Riverside-Los Angeles assessment areas where a full-scope review was performed.

Due to Business Bank of California's asset size (which exceeded \$250 million as of 12/31/2000) and the recent merger with Metro Commerce Bank (as of 1/1/02), the next examination will likely be conducted using the large institution performance criteria. These expanded criteria will be covered within three component tests: lending, investments, and services.

Loan-to-Deposit Ratio

Based upon an analysis of lending activity in comparison to the deposit base, Business Bank of California's loan-to-deposit ratio meets the standards for satisfactory performance. The ratio has steadily increased over the previous eight quarters averaging approximately 74 percent, which was comparable to peer banks.

Lending in Assessment Area

The bank made a substantial majority of its small business loans within its five assessment areas. The following table shows the percentages of small business loans extended within the assessment areas.

Loan Product	Inside Assessment Area		Outside Assessment Area	
	Percent of Number	Percent of Dollar Volume	Percent of Number	Percent of Dollar Volume
Small Business	81%	65%	19%	35%

Geographic Distribution of Loans

Geographic distribution of small business loans reflects excellent dispersion throughout the assessment areas. The geographic concentration of small business loans within the low- and moderate-income census tracts was strong. While the bank's performance in the Marin-Sonoma Assessment Area compared favorably to aggregate lending, performance in the San Bernardino-Riverside Assessment Area exceeded aggregate small business lending by a significant percentage; particularly in the low- and moderate-income areas. The following tables reflect the distribution of small business lending within both assessment areas.

Marin-Sonoma Assessment Area

Census Tract Income Level	Percent of Tracts	Percent of Small Businesses	Bank Small Business Lending		Aggregate Small Business Lending	
			Percent of Number	Percent of Dollar Volume	Percent of Number	Percent of Dollar Volume
Moderate	10%	10%	9%	14%	11%	16%
Middle	49%	51%	47%	49%	49%	46%
Upper	41%	39%	44%	37%	40%	38%

San Bernardino-Riverside-Los Angeles Assessment Area

Census Tract Income Level	Percent of Tracts	Percent of Small Businesses	Bank Small Business Lending		Aggregate Small Business Lending	
			Percent of Number	Percent of Dollar Volume	Percent of Number	Percent of Dollar Volume
Low	4%	2%	9%	11%	2%	1%
Moderate	23%	20%	30%	33%	16%	23%
Middle	47%	50%	47%	39%	44%	44%
Upper	25%	28%	14%	17%	38%	32%
N/A	1%	0%	0%	0%	0%	0%

Lending by Business Revenue

Business Bank of California's level of lending to small businesses in the assessment areas is good. There was an adequate penetration of loans among businesses of different sizes.

Marin-Sonoma Assessment Area

According to Dun and Bradstreet, approximately 87 percent of all businesses in the Marin-Sonoma assessment area are small businesses. Of those business loans made during the examination period, a substantial majority (65 percent) were extended to small businesses. Of the small business loans extended to small businesses, 50 percent, were extended in amounts of \$100,000 or less which addresses a stated credit need for small dollar loans.

San Bernardino-Riverside-Los Angeles Assessment Area

Within the San Bernardino-Riverside-Los Angeles assessment area, 85 percent of all companies are small businesses. Of those business loans made during the examination period, 39 percent were extended to small businesses. Although the percentage may appear somewhat low, of the small business loans extended to small businesses, 73 percent were in amounts of \$100,000 or less which, again, address a stated credit need in the community

Response to Complaints

The bank did not receive any complaints relating to its CRA performance during the review period. Accordingly, its performance in responding to complaints was not considered in evaluating its CRA performance.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

Business Bank of California has developed policies and procedures to facilitate compliance with fair lending laws and regulations. No violations of the substantive provisions of the anti-discrimination laws and regulations were identified at this examination. Additionally, there was no evidence of prohibitive lending practices.

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

- (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:

- (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.