

PUBLIC DISCLOSURE

July 13, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pierce Commercial Bank
RSSD #2453132**

**1722 South Union Avenue
Tacoma, Washington 98405**

**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 RATING

Institution's CRA Rating

Pierce Commercial Bank is rated "Substantial Noncompliance"

The presence of pervasive unfair credit practices in the bank's mortgage lending function that violate Section 5 of the Federal Trade Commission Act heavily influenced the overall Community Reinvestment Act (CRA) performance assessment as they overshadowed an otherwise satisfactory lending record that was characterized by:

- A reasonable loan-to-deposit ratio;
- A majority of small business, home improvement, home purchase, and home refinance loans originated within the bank's assessment area;
- Generally reasonable lending distributions by geography, business revenue and borrower income. However, small business and home improvement lending in the Thurston County (i.e., Olympia Metropolitan Statistical Area) is poor and not explained by contextual factors.

INSTITUTION

Description of Institution

Pierce Commercial Bank (PCB), headquartered in Tacoma, Washington, reported assets of \$261.9 million as of December 31, 2008. Established in 1997, PCB's main office is centrally located in Tacoma's business and medical district. Until June 30, 2009, PCB maintained residential loan production offices in the cities of Puyallup and Lacey. The bank has since consolidated its mortgage lending division into its Tacoma office.

PCB is a full service commercial bank focusing on relationship-based business banking with a specialized focus on the medical community. Commercial products include credit facilities for real estate acquisition, working capital, and accounts receivable financing. During the review period, the bank was an active residential mortgage lender that extended loans for both the purchase and refinance of single family residences and sold these loans in the secondary market. Although not its primary focus, PCB does offer consumer loan products including home equity lines of credit, unsecured lines of credit, and auto and boat installment loans.

Below is the December 31, 2008, loan portfolio as stated in the Consolidated Reports of Condition and Income, which shows the bank's commercial and residential real estate focus.

EXHIBIT 1		
LOANS AND LEASES AS OF DECEMBER 31, 2008		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	110,546	45.5
Secured by 1-4 Family Residential Real Estate	67,607	27.9
Construction & Land Development	30,768	12.7
Consumer Loans & Credit Cards	22,525	9.3
All Other	11,187	4.6
Total (Gross)	242,633	100.0%

PCB has made no assessment area changes since the previous examination and continues to define its assessment area as Pierce and Thurston counties in their entirety. PCB faced no legal or financial impediments that would prevent it from helping to meet the credit needs of its assessment areas consistent with its business strategy, size, financial capacity, and local economic conditions. The bank received a satisfactory rating at its previous CRA examination conducted as of October 30, 2006.

Description of Assessment Area

The bank's assessment area is located in western central Washington, south of Puget Sound, and consists of Pierce and Thurston counties in their entirety. Pierce County constitutes the Tacoma

Metropolitan Division, which is part of the Seattle-Tacoma-Bellevue Metropolitan Statistical Area (MSA). Located west of Pierce County, Thurston County represents the Olympia MSA. These counties are all a part of the Seattle-Tacoma-Olympia Consolidated Statistical Area. Based upon 2009 population estimates, Pierce and Thurston counties were ranked second and seventh largest in the state with total residents of 813,600 and 249,800, respectively.¹ The principal cities in Pierce County are Gig Harbor, Tacoma, and University Place while the principal cities in Thurston County are Lacey, Olympia, and Tumwater. PCB currently operates one branch in its assessment area – the main office located in Tacoma.

PCB has a limited presence in this highly competitive assessment area. As of June 30, 2008, PCB's one office held \$236.3 million in deposits, representing 2.02 percent of the market share and ranking the bank 12th out of 39 institutions insured by the Federal Deposit Insurance Company operating 279 offices in this assessment area.² The bank's market share for Home Mortgage Disclosure Act (HMDA)-reported residential mortgage loans was 3.1 percent, ranking the bank 8th out of 436 HMDA lenders that originated 51,393 reportable loans in 2008.³ Competition for small business loans is also significant given that there were 79 lenders that originated 32,820 CRA-reportable small business loans and these lenders represent only a portion of the overall market.⁴ Given the large number of institutions operating in this area, competition for loan and deposit products was significant. During the review period for this examination, the bank also operated a mortgage lending office in the city of Puyallup.

The following exhibit presents key demographic and business information, based on the 2000 U.S. Census and 2008 Dun & Bradstreet data, used to help develop a performance context for the assessment area.

¹ State of Washington Office of Financial Management (access July 15, 2009); available at <http://www.ofm.wa.gov/pop/april1/cocmpch2009.pdf>.

² Federal Deposit Insurance Corporation, Institution Directory, Summary of Deposits, June 30, 2008 (accessed July 15, 2009); available from <http://www2.fdic.gov/sod>.

³ Based upon the number of institutions reporting HMDA data within the bank's assessment area.

⁴ Based upon the number of institutions reporting CRA data regarding small business loans within the bank's assessment area.

EXHIBIT 2 ASSESSMENT AREA DEMOGRAPHICS PIERCE & THURSTON COUNTIES								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	5	2.6	4,256	1.8	1,430	33.6	43,420	18.3
Moderate-income	35	18.2	36,786	15.5	4,948	13.5	44,694	18.9
Middle-income	112	58.3	145,875	61.6	8,977	6.2	56,415	23.8
Upper-income	39	20.3	49,774	21.0	1,421	2.9	92,162	38.9
Tract not reported	1	0.5	0	0.0	0	0.0	0	0.0
Total AA	192	100.0	236,691	100.0	16,776	7.1	236,691	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	7,988	822	0.4	10.3	6,315	79.1	851	10.7
Moderate-income	63,452	24,863	11.3	39.2	34,357	54.1	4,232	6.7
Middle-income	223,674	141,498	64.3	63.3	69,226	30.9	12,950	5.8
Upper-income	68,596	52,804	24.0	77.0	12,540	18.3	3,252	4.7
Tract not reported	2	0	0.0	0.0	0	0.0	2	100.0
Total AA	363,712	219,987	100.0	60.5	122,438	33.7	21,287	5.9
Income Categories	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	#
Low-income	643	1.6	579	1.6	44	1.7	20	2.1
Moderate-income	8,566	21.2	7,453	20.2	837	33.0	276	29.6
Middle-income	23,327	57.9	21,557	58.5	1,240	48.9	530	56.9
Upper-income	7,781	19.3	7,259	19.7	417	16.4	105	11.3
Total AA	40,317	100.0	36,848	100.0	2,538	100.0	931	100.0
Percentage of Total Businesses			91.4		6.3		2.3	
2004 MSA Median Family Income		\$52,165 - Pierce \$54,798 - Thurston		December 2008 Median Housing Value ⁵			\$243,000 - Pierce \$250,000 - Thurston	
2008 HUD Adjusted Median Family Income		\$66,200 - Pierce \$66,300 - Thurston		December 2008 Unemployment Rate ⁶			6.4% - Pierce 5.6% - Thurston	

The Pierce–Thurston assessment area has a diverse economy, with major employment sectors including state and local government, military, health care, and retail trade. In Pierce County, the largest employers, by number of employees, include U.S. Army Fort Lewis, U.S. Air Force Base McChord, Washington state government, Multicare Health System, Franciscan Health System, U.S. Army Madigan Hospital and Pierce County Government.⁷ In addition, the Port of Tacoma contributes significantly to the county’s position as a major regional trade and service center. In Thurston County, given this county is home to the state capital in Olympia, state

⁵ Median Sales Price Data for Pierce and Thurston, Washington State University’s Center for Real Estate Research, (accessed March 3, 2010); available at <http://www.wcrer.wsu.edu/WSHM/WSHM.html>.

⁶ Bureau of Labor Statistics (Haver Analytics), May 1, 2009.

⁷ Economic Development Board for Tacoma-Pierce County, 2008 Major Employer List, (accessed July 28, 2009); available from http://triton.co.pierce.wa.us/edb/assets/images/2008_Major_Employers_List_with_logo.pdf.

employment is the largest employer by number of employees, accounting for over 25,000 full and part-time jobs,⁸ while Providence St. Peter Hospital is the largest private employer.

During the review period of July 1, 2006 through December 31, 2008, Pierce County's economy moved from strong growth to a recession. In mid-2006, Tacoma's economy was among the leaders of a fast-paced Washington economy as non-residential construction projects maintained strong growth in construction employment despite slowing building activity in the residential real estate market. However, the economy started to decelerate in the beginning of 2007 and continued to decelerate through year-end due to a declining real estate market and a slowing national economy. By August of 2008, the economy was on the brink of recession, however, it was buoyed by Tacoma's large military presence that provided economic stability as well as Tacoma's service industry which caters to commuter workers choosing to reside in Tacoma to avoid the Seattle's higher priced real estate. Nevertheless, by year-end of 2008, the deteriorating housing market pushed Tacoma into recession causing considerable job losses in construction, manufacturing, and the financial activities sectors.⁹ Similarly, Thurston County's economy moved from strong to the brink of recession. During mid- 2006, Thurston County's economy was strong, however, in 2007, residential construction numbers started to decline and weak retail sales were reported beginning the economic slowdown. In Olympia, by year-end 2008, the national recession, a struggling state economy, and the deteriorating housing market had also brought Olympia to the brink of recession.

Small businesses (i.e., those with gross annual revenues of \$1.0 million or less) provide a significant percentage of total assessment area employment as they comprise a substantial majority of all businesses in the assessment area. According to the Dun & Bradstreet data shown in Exhibit 2 above, these small businesses make up approximately 91.4 percent of all assessment area businesses. Given the preponderance of small businesses, credit for these entities is an apparent need. However, the declining economic conditions during the review period resulted in financial institutions tightening lending standards and terms on all major loan products. The move toward more stringent lending policies was a trend throughout 2008. According to the October 2008 Senior Loan Officer Opinion Survey on Bank Lending Practices conducted by the Board of Governors of the Federal Reserve System, the net percentages of respondents that reported tightening standards increased relative to the July survey for both commercial and industrial loans and commercial real estate loans.¹⁰ Previous surveys follow the same pattern. Also, survey results indicate that the demand for loans from both businesses and households weakened in the review period. Although there has been some decline in demand, community representatives indicated that there is a continuing need for micro loans for start-up businesses and to provide working capital for existing small businesses despite the current economic environment. Community representatives also identified a need for financial education and technical assistance for small business owners.

⁸ Thurston Regional Planning Council, The Profile Online, Chapter 4: Employment, (accessed on July 28, 2009); available from http://www.trpc.org/resources/07_profile08_ch04_employment.pdf.

⁹ Moody's Economy.com, Precis METRO, Tacoma, August 2006 to December 2008.

¹⁰ The Federal Reserve Board. "The October 2008 Senior Loan Officer Opinion Survey on Banking Lending Practices" available from <http://www.federalreserve.gov/boarddocs/SnLoanSurvey/200811/>.

Furthermore, the housing market saw dramatic declines in 2007 as residential construction slowed and the number of foreclosures increased in the assessment area. In 2007 through year-end 2008, the number of foreclosures significantly increased for both counties causing a downward pressure on home prices and consequently housing values. By year-end 2008, Pierce and Thurston County home sales activity dropped 14.7 percent¹¹ and 24.0 percent,¹² respectively, from its 2007 figures. While housing prices have decreased in the assessment area, housing affordability for low- and moderate-income individuals remains a significant issue in the area. To illustrate, using figures from Exhibit 2 above, the December 2008 median home price in Pierce and Thurston Counties were \$243,000 and \$250,000, respectively. A low-income individual earning 50.0 percent of the 2008 Department of Housing and Urban Development adjusted median family income for Pierce County and Thurston County, or \$33,100 or \$33,150, respectively, may be able to qualify for a 30-year fixed mortgage of approximately \$108,000, assuming a five percent interest rate, zero down payment, and no existing debt.¹³

The gap between incomes and home prices, coupled with tighter credit availability help support assertions that there is a continuing need for the support and development of affordable housing programs in the area, particularly for low- and moderate-income individuals. Additionally, there is an increased need to assist homeowners experiencing mortgage delinquency and foreclosure by providing them with access to counseling services and other resources such as foreclosure prevention programs.

Scope of Examination

CRA performance was evaluated using the Interagency Small Bank CRA Examination Procedures. The evaluation was based on the following performance criteria:

- Loan volume in comparison to deposits (Loan-to-Deposit Ratio);
- Lending inside and outside the assessment area (Lending in Assessment Area);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and
- Distribution of lending to borrowers of different income levels and businesses of different revenue sizes (Lending Distribution by Borrower Income and Business Revenue).

Responsiveness to consumer complaints was not evaluated since the bank did not receive any complaints related to its CRA-performance during the review period.

The lending test evaluation was based on home purchase, home refinance and home improvement loans reported under the HMDA and small business loans originated between

¹¹ Rhodes, Eilizabeth, (December 4, 2008), King County Home Prices Fall 9.2% in November. *The Seattle Times* (accessed on July 29, 2009); available from http://seattletimes.nwsourc.com/html/business/technology/2008469240_webhomesale04.html.

¹² Boone, Rolf, (January 23, 2009), County Home Sales Mark Six-Year Low. *The Olympian* (accessed on July 29, 2009); available from <http://www.thurstonedc.com/File.ashx?cid=597>.

¹³ CNN Money, *How Much Can You Afford?*, (accessed on July 30, 2009); available from <http://cgi.money.cnn.com/tools/houseafford/houseafford.html>.

July 1, 2006 and December 31, 2008. A total of 3,412 home purchase, 1,977 home refinance, 307 home improvement and 426 small business loans were used in the evaluation of *Lending in the Assessment Area*. All 2,676 home purchase, 1,419 home refinance, 219 home improvement and a statistical sample¹⁴ of 75 of the 389 small business loans extended within the bank's assessment areas were used in the evaluation of *Lending Distribution by Geography* and *Lending Distribution by Borrower Income and Business Revenue*.

The evaluation placed more weight on lending within Pierce County given that PCB's sole banking office is located within this portion of the assessment area. In addition, products were weighted according to volume. Therefore, the evaluation placed the greatest weight on home mortgage loans followed by small business and home improvement loans.

¹⁴ Sample drawn at a 7.5 percent precision level with 90.0 percent confidence.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable. The bank's eight-quarter average loan-to-deposit ratio, at 99.9 percent as of December 31, 2008, is higher than the state average and national peer loan-to-deposit ratios of 98.1 and 86.3 percent, respectively.

Lending in Assessment Area

The majority of the bank's loans were originated within the assessment area by both number and dollar volume.

EXHIBIT 3								
LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA								
JULY 1, 2006 – DECEMBER 31, 2008								
Loan Type	Inside				Outside			
	#	%	\$ (‘000s)	%	#	%	\$ (‘000s)	%
HMDA Home Purchase	2,676	78.4	563,208	77.5	736	21.6	163,732	22.5
HMDA Refinance	1,418	71.7	362,547	71.2	559	28.3	146,815	28.8
HMDA Home Improvement	219	71.3	48,026	67.2	88	28.7	23,424	32.8
Total HMDA-Related	4,313	75.7	973,781	74.4	1,383	24.3	333,971	25.5
Small Business	389	91.3	75,438	90.3	37	8.7	8,145	9.7
Total Loans	4,702	76.8	1,049,219	75.4	1,420	23.2	342,116	25.6

Lending Distribution by Geography

The geographic distribution of loans generally reflects a reasonable dispersion throughout the assessment area. However, for certain products the performance or the very low level of lending in Thurston County is poor and not supported by contextual factors.

Home Mortgage Loans

The geographic distribution of home mortgage loans within the assessment area is reasonable. As shown in Exhibits 4 and 5 below, home mortgage loans were extended in geographies of all income levels throughout the assessment area. The geographic distribution is consistent with aggregate lending and owner occupied housing percentages. The absence of home mortgage lending to low-income census tracts is reasonable given that Thurston County does not contain low-income census tracts.

EXHIBIT 4						
GEOGRAPHIC DISTRIBUTION OF HOME PURCHASE LOANS						
Census Tract Category	Pierce County			Thurston County		
	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)
Low-Income	0.5	0.5	0.7	NA	NA	NA
Moderate-Income	9.4	11.0	11.8	8.6	12.3	10.1
Middle-Income	70.6	63.1	65.1	76.0	68.1	70.1
Upper-Income	19.5	25.5	22.4	15.4	19.6	19.8

EXHIBIT 5						
GEOGRAPHIC DISTRIBUTION OF HOME REFINANCE LOANS						
Census Tract Category	Pierce County			Thurston County		
	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)
Low-Income	0.5	0.5	0.5	NA	NA	NA
Moderate-Income	10.3	11.0	11.4	8.3	12.3	11.7
Middle-Income	66.0	63.1	63.4	74.3	68.1	71.2
Upper-Income	23.2	25.4	24.7	17.4	19.6	17.1

Home Improvement Loans

The geographic distribution of home improvement loans is adequate in Pierce County, reasonably approximating the levels of owner-occupied housing and aggregate lending. However, as noted in Exhibit 6, there is no lending in moderate-income geographies in Thurston County. This lack of lending is not explained by the performance context or other contextual factors regarding the bank's mortgage lending operations, particularly in light of the fact that the aggregate lending mirrors owner occupancy levels.

EXHIBIT 6						
GEOGRAPHIC DISTRIBUTION OF HOME IMPROVEMENT LOANS						
Census Tract Category	Pierce County			Thurston County		
	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)	Bank Lending (%)	Owner-Occupied Housing (%)	Aggregate Lending (%)
Low-Income	0.5	0.5	0.3	NA	NA	NA
Moderate-Income	8.0	11.0	11.9	0.0	12.3	12.4
Middle-Income	61.2	63.1	62.7	88.9	68.1	70.6
Upper-Income	30.4	25.4	25.1	11.1	19.6	17.1

Small Business Loans

The geographic distribution of small business loans within the assessment area is adequate overall. While Exhibit 7 below suggests that there is no small business lending at all within Thurston County and no lending in the five low-income tracts within Pierce County, this result appears to be an anomaly of a random sample. Bank management was able to provide examples of small business loans in both Thurston County and the Pierce County low-income census tracts. Nevertheless, the overall level of lending in Thurston County is low and not fully explained by its distance from the bank’s only lending office or any other contextual factors. Conversely, the number of loans in the Pierce County low-income tracts was sufficient in number to suggest that the volume is comparable with the small percentage of business entities located in these low-income geographies. Further, loans were generally made in close proximity to the main office in Tacoma, and there were no conspicuous gaps in the lending patterns.

EXHIBIT 7 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS						
Census Tract Category	Pierce County			Thurston County		
	Bank Lending (%)	Business Concentration (%)	Aggregate Lending (%)	Bank Lending (%)	Business Concentration (%)	Aggregate Lending (%)
Low-Income	0.0	2.2	1.0	NA	NA	NA
Moderate-Income	16.0	21.1	17.9	0.0	21.7	17.9
Middle-Income	61.3	55.7	54.9	0.0	63.9	63.8
Upper-Income	22.7	21.0	26.2	0.0	14.4	18.3

Lending Distribution by Borrower Income and Business Revenue

Overall, the distribution of loans among borrowers of different incomes and businesses of different revenue sizes is reasonable. Lending patterns suggest that the bank is adequately serving the needs of low- and moderate-income persons and small businesses, with a somewhat stronger record of such in Pierce County than in Thurston County

Home Mortgage Lending

The distribution of home mortgage loans by borrower income is reasonable. As shown in Exhibits 8 and 9 on the following page, the level of lending was commensurate with the aggregate market lending to low- and moderate-income individuals in the assessment area. However, the bank and the aggregate market were not particularly successful in reaching low-income borrowers relative to the percentage of low-income families in the assessment area. Nevertheless, the lower lending levels are primarily explained by the housing affordability issues previously discussed.

EXHIBIT 8 BORROWER DISTRIBUTION OF HOME PURCHASE LOANS						
Borrower Income Level	Pierce County			Thurston County		
	Bank Lending (%)	Families (%)	Aggregate Lending (%)	Bank Lending (%)	Families (%)	Aggregate Lending (%)
Low-Income	1.0	18.7	1.3	1.7	17.2	2.0
Moderate-Income	14.0	18.9	13.3	11.1	18.8	15.4
Middle-Income	32.7	23.2	29.1	34.1	25.8	31.6
Upper-Income	52.3	39.1	56.3	53.1	38.3	51.0

EXHIBIT 9 BORROWER DISTRIBUTION OF HOME REFINANCE LOANS						
Borrower Income Level	Pierce County			Thurston County		
	Bank Lending (%)	Families (%)	Aggregate Lending (%)	Bank Lending (%)	Families (%)	Aggregate Lending (%)
Low-Income	1.9	18.7	2.0	2.9	17.2	3.3
Moderate-Income	11.8	18.9	13.5	20.0	18.8	16.8
Middle-Income	29.4	23.2	28.8	38.1	25.8	31.1
Upper-Income	56.9	39.1	55.7	39.0	38.3	48.8

Home Improvement Lending

For the reasons stated above with regard to home mortgage lending, the borrower distributions with regard to home improvement lending are adequate in Pierce County. However, as noted in Exhibit 10, there is no lending to low-income borrowers in Thurston County while the aggregate lenders made almost five percent of all loans to this group of borrowers. Again, this lack of lending is not explained by contextual factors and reflects poorly on the bank's overall performance.

EXHIBIT 10 BORROWER DISTRIBUTION OF HOME REFINANCE LOANS						
Borrower Income Level	Pierce County			Thurston County		
	Bank Lending (%)	Families (%)	Aggregate Lending (%)	Bank Lending (%)	Families (%)	Aggregate Lending (%)
Low-Income	3.1	18.7	3.1	0.0	17.2	4.8
Moderate-Income	7.2	18.9	14.7	11.1	18.8	14.2
Middle-Income	23.2	23.2	29.3	27.8	25.8	31.3
Upper-Income	66.5	39.1	53.0	61.1	38.3	49.7

Small Business Lending

The level of lending to small businesses in Pierce County is reasonable. However, as noted above, there is a very low level of small business lending in Thurston County, none of which was part of the statistical sample for this assessment factor, but which nonetheless is not fully explained by the performance context and the counties' relative distance from the bank's main office. As shown in Exhibit 11, the level of lending to small businesses in Pierce County

compares favorably to the aggregate market and reasonably to the percentage of small businesses within the assessment area.

EXHIBIT 11 BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS							
County	Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size			Aggregate Lending	
	Bank Loans (%)	All Businesses (%)	<=\$100K (%)	>\$100K and <=\$250K (%)	> \$250K and <=\$1M (%)	All Loans	Revenue <= \$1 Million (%)
Pierce	66.7	91.2	45.3	33.3	21.3	27,648	41.7
Thurston	0.0	91.9	0.0	0.0	0.0	8,950	37.8

Response to Complaints

There were no complaints related to CRA received during the review period. Accordingly, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

Fair Lending or Other Illegal Credit Practices Review

The consumer compliance examination conducted at the same time as the CRA evaluation identified significant and pervasive illegal credit practices in violation of Section 5 of the Federal Trade Commission Act. The violations involved activities conducted by PCB's mortgage production office. The bank's policies and internal assessment efforts did not identify the matter. The mortgage production office has since closed. The illegal credit practices caused PCB's rating to be adjusted downward from "Satisfactory" to "Substantial Noncompliance."

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision 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. Census tracts 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.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) 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. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include

non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.