

# **PUBLIC DISCLOSURE**

**October 2, 2017**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Pacific Commerce Bank**

**RSSD # 3143805**

**420 East 3<sup>rd</sup> Street  
Los Angeles, California 90013**

**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 the 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.*

## TABLE OF CONTENTS

<b>INSTITUTION RATING .....</b>	<b>1</b>
Institution’s Community Reinvestment Act (CRA) Rating .....	1
<b>INSTITUTION .....</b>	<b>2</b>
Description of Institution.....	2
Description of Assessment Area .....	2
Scope of Examination .....	3
LENDING TEST.....	3
COMMUNITY DEVELOPMENT TEST.....	3
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS .....</b>	<b>4</b>
Lending Test .....	4
LOAN-TO-DEPOSIT RATIO .....	4
LENDING IN ASSESSMENT AREA .....	4
GEOGRAPHIC AND BORROWER DISTRIBUTION.....	4
RESPONSE TO COMPLAINTS.....	5
Community Development Test.....	5
Fair Lending or Other Illegal Practices Review.....	5
<b>FULL-SCOPE ASSESSMENT AREA CONCLUSIONS .....</b>	<b>6</b>
Los Angeles Assessment Area.....	6
DESCRIPTION OF OPERATIONS IN LOS ANGELES .....	6
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN LOS ANGELES COUNTY.....	14
San Diego Assessment Area.....	17
DESCRIPTION OF OPERATIONS IN SAN DIEGO .....	17
CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SAN DIEGO COUNTY.....	25
<b>APPENDICES</b>	
Appendix A: Glossary of Terms	

## INSTITUTION RATING

### ***Institution's Community Reinvestment Act (CRA) Rating***

Pacific Commerce Bank is rated "SATISFACTORY"

The following table shows the performance ratings for the lending and community development tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS	
	LENDING TEST	COMMUNITY DEVELOPMENT TEST
OUTSTANDING		
SATISFACTORY	<b>X</b>	<b>X</b>
NEEDS TO IMPROVE		
SUBSTANTIAL NONCOMPLIANCE		

The major factors supporting the institution's rating include:

- A more than reasonable loan-to-deposit ratio;
- A substantial majority of loans originated within the bank's assessment area;
- A reasonable geographic distribution of small business loans with strong penetration in moderate-income geographies in the Los Angeles assessment area and strong performance in low- and moderate-income geographies within the San Diego assessment area;
- A reasonable distribution of small business loans to businesses of different sizes, with lending in smaller dollar amounts that was responsive to small business credit needs. In addition, lending to businesses with gross annual revenues of \$1 million or less was notable in the San Diego assessment area; and
- An adequate level of community development activities that were particularly responsive to the economic development needs within the bank's assessment area.

# INSTITUTION

## ***Description of Institution***

Pacific Commerce Bank (PCB), a wholly-owned subsidiary of Pacific Commerce Bancorp, is headquartered in Los Angeles, California, and had total assets of \$526.5 million as of June 30, 2017. PCB began operations in 2002, with one office located in the area of Los Angeles known as Little Tokyo. In 2005, PCB opened a second branch in West Los Angeles, followed by a third branch in San Diego in 2013. In 2015 and 2016, PCB merged with Vibra Bank and ProAmerica Bank, respectively. The mergers resulted in an expansion of the bank’s branch network, which now include four branches in Los Angeles County and two branches in San Diego County.

PCB is a community bank that provides commercial banking products and services to small- and intermediate-sized businesses and professionals. Commercial loan products include term loans, lines of credit, receivable and inventory financing, commercial real estate loans and Small Business Administration 504 and 7(a) loan. PCB also offers standard business deposit products, such as checking, savings, and certificates of deposit accounts, as well as business services, such as remote deposit capture, merchant card services and online banking. Consumer deposit products are offered to the bank’s business customers only.

Exhibit 1 below represents PCB’s loan portfolio as stated in the Consolidated Reports of Condition and Income as of December 31, 2016 and illustrates PCB’s commercial lending focus.

<b>EXHIBIT 1</b>		
<b>LOANS AND LEASES AS OF DECEMBER 31, 2016</b>		
<b>Loan Type</b>	<b>\$ ('000s)</b>	<b>%</b>
Commercial/Industrial & Non-Farm Non-Residential Real Estate	346,852	81.6
Secured by 1-4 Family Residential Real Estate	34,213	8.1
Construction & Land Development	21,543	5.1
Multi-Family Residential Real Estate	16,578	3.9
All Other	4,190	1.0
<b>Total (Gross)</b>	<b>424,920</b>	<b>100.0</b>

## ***Description of Assessment Area***

PCB’s assessment area expanded due to the acquisition of Vibra Bank and ProAmerica Bank. The assessment area now includes the San Diego County assessment area in addition to the Los Angeles County assessment area. Los Angeles County is part of the Los Angeles-Long Beach-Glendale Metropolitan Division (Los Angeles Metropolitan Division), which is part of the Los Angeles-Long Beach-Anaheim, California Metropolitan Statistical Areas (MSA). San Diego County is part of the San Diego-Carlsbad-San Marcos, California MSA.

PCB did not face any legal or financial impediments during the review period that would have prevented it from helping to meet the credit needs of its assessment area 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 7, 2013, by the Federal Reserve Bank of San Francisco, using the *Interagency Small Institution CRA Examination Procedures*.

## **Scope of Examination**

PCB's performance was evaluated using the *Interagency Intermediate Small Institution CRA Examination Procedures*. As such, performance was evaluated using the lending and community development tests. Each of the bank's assessment areas received a full-scope review; however, the Los Angeles County assessment area was weighted more heavily due to the bank's presence and activity in this market. The evaluation was based on the following performance criteria:

### **LENDING TEST**

The lending test was based on the following performance criteria:

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

PCB's responsiveness to consumer complaints was not evaluated since the bank did not receive any CRA-related complaints during the review period.

The lending test evaluation was based on a sample of 73 small business loans originated between January 1, 2016 and December 31, 2016. The small business loan sample was selected using the *Board of Governor's Sampling Procedures*. Examiners verified the integrity of the bank's HMDA and small business loan data during the onsite data verification during the week of June 26, 2017. All 73 small business loans were considered in the evaluation of *Lending in the Assessment Area*. Of that total, 67 small business loans were extended within the bank's assessment areas. These 67 small business loans were considered in the evaluation of *Lending Distribution by Geography* and *Lending Distribution by Business Revenue*. Home purchase, home refinance, and multifamily loans were also considered during the review; however, they did not impact the overall assessment due to limited volume.

### **COMMUNITY DEVELOPMENT TEST**

The community development test portion of the examination included an evaluation of PCB's level of community development activities in relation to local needs, as well as the bank's capacity to participate in such activities. The evaluation was based upon qualified community development loans, investments, and services from January 1, 2017 through October 2, 2017 since the bank became subject to the *Interagency Intermediate Small Bank CRA Examination Procedures* on January 1, 2017.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### ***Lending Test***

PCB's overall performance under the lending test is satisfactory. The loan-to-deposit ratio is more than reasonable and a substantial majority of loans were extended within the bank's assessment areas. The geographic distribution of loans is adequate with notable penetration in moderate-income geographies. There is also reasonable distribution of lending to businesses of different revenue sizes.

### **LOAN-TO-DEPOSIT RATIO**

PCB's loan-to-deposit ratio is more than reasonable. The bank's average loan-to-deposit ratio over the 14-quarter period ending with June 30, 2017, is 103.4 percent. This ratio compares more than reasonably with the state and national peer averages of 81.9 percent and 78.3 percent, respectively.

### **LENDING IN ASSESSMENT AREA**

A substantial majority of the small business and mortgage related loans were extended within the bank's assessment areas, as reflected in Exhibit 2 below. These lending levels indicate that PCB is effectively engaged in lending within its defined markets.

EXHIBIT 2 LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS								
Loan Type	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Business	67	91.8	22,531	90.3	6	8.2	2,433	9.7
Total Business Related	67	91.8	22,531	90.3	6	8.2	2,433	9.7
Home Purchase	7	100.0	2,401	100.0	0	0.0	0	0.0
Refinance	2	100.0	2,872	100.0	0	0.0	0	0.0
Multifamily	3	42.9	4,261	70.3	4	57.1	1,804	29.7
Total Mortgage Related	12	75.0	9,534	84.1	4	25.0	1,804	15.9
Total Loans	79	88.8	32,065	88.3	10	11.2	4,237	11.7

### **GEOGRAPHIC AND BORROWER DISTRIBUTION**

Overall, the geographic and borrower distributions of the bank's lending is reasonable. Loans were generally distributed throughout the bank's assessment areas with no conspicuous lending gaps and were generally concentrated in close proximity to the bank's branches. The bank's lending in moderate-income geographies was notable and exceeded aggregate lending percentages. The distribution of loans to businesses of different sizes was comparable to the distribution of small business in the assessment areas and aggregate lending percentages. The bank affirmatively responded to the need for smaller dollar loans by extending a high volume of small business loans in Los Angeles County in amounts of \$250,000 and below.

## RESPONSE TO COMPLAINTS

PCB did not receive any CRA-related complaints during the review period. Accordingly, the bank’s performance in responding to complaints was not considered in evaluating its overall CRA performance.

## *Community Development Test*

PCB’s performance under the community development test is satisfactory. The bank provided an adequate level of community development loans, investments and services, which were particularly responsive to the need for economic development in low- and moderate-income geographies. The bank also engaged in activities that benefited a broader statewide or regional area, including the origination of four community development loans, totaling \$4.9 million, to organizations that provide jobs and services to low- and moderate-income individuals. Additionally, PCB provided 59 hours of service to a community development financial institution (CDFI) that lends to low- and moderate-income communities.

Exhibit 3 below illustrates the bank's community development activities. The details of these activities are discussed under each applicable assessment area.

EXHIBIT 3 COMMUNITY DEVELOPMENT ACTIVITIES								
Assessment Areas	Loans		Investments				Services	
	#	\$ ('000s)	Prior Period		Current Period		#	Hours
			#	\$ ('000s)	#	\$ ('000s)		
Los Angeles County	5	6,132	0	0	4	1,498	5	128
San Diego County	5	9,020	0	0	1	249	1	73
Broader Statewide or Regional Area	4	4,913	0	0	0	0	3	59
<b>Total</b>	<b>10</b>	<b>15,152</b>	<b>0</b>	<b>0</b>	<b>5</b>	<b>1,747</b>	<b>6</b>	<b>201</b>

These overall conclusions are based upon a variety of performance context issues affecting the separate assessment areas. Individual conclusions for each assessment area are presented within the separate assessment area analyses.

## *Fair Lending or Other Illegal Practices Review*

Concurrent with this CRA evaluation, a review of PCB’s compliance with applicable consumer protection laws and regulations was conducted. The review found no evidence of violations of the substantive provisions of anti-discrimination, fair lending, or credit practices rules, laws or regulations.

# FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

*For each assessment area where a full-scope review was performed using the examination procedures.*

## **Los Angeles Assessment Area**

### **DESCRIPTION OF OPERATIONS IN LOS ANGELES**

Los Angeles County is located along the Pacific Coast in Southern California, south of Kern County and north of Orange County, and is part of the Los Angeles-Long Beach-Anaheim MSA. Los Angeles assessment area consists of Los Angeles County. At the end of 2016, the assessment area was home to more than 10 million people, making it the most populated county in the United States.<sup>1</sup>

PCB has a limited presence and small percentage of the overall deposit market share in this assessment area. As of June 30, 2016, the Los Angeles assessment area had 108 Federal Deposit Insurance Corporation-insured commercial institutions operating 1,782 offices. PCB operated four branches in the area, which had total deposits of \$306.8 million, representing 0.08 percent of the market.<sup>2</sup>

Exhibits 4 through 6 on the following pages present key demographic and business information used to help develop a performance context for the assessment area.

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<sup>1</sup> U.S. Census Bureau, *2016 Population Estimates*, Los Angeles County; available from: <http://quickfacts.census.gov/qfd/index.html>.

<sup>2</sup> Federal Deposit Insurance Corporation, *Deposit Market Share Report*, June 30, 2016; available from: <https://www5.fdic.gov/sod/sodMarketRpt.asp?barItem=2>.



EXHIBIT 4 ASSESSMENT AREA DEMOGRAPHICS LOS ANGELES COUNTY ASSESSMENT AREA 2010 U.S. CENSUS AND 2014 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	211	9.0	154,899	7.1	56,456	36.4	522,024	24.1
Moderate-income	672	28.6	603,256	27.8	124,935	20.7	356,500	16.4
Middle-income	628	26.8	607,359	28.0	59,835	9.9	382,899	17.6
Upper-income	798	34.0	804,630	37.1	32,395	4.0	908,804	41.9
Unknown-income	37	1.6	83	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>2,346</b>	<b>100.0</b>	<b>2,170,227</b>	<b>100.0</b>	<b>273,621</b>	<b>12.6</b>	<b>2,170,227</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	256,638	33,122	2.1	12.9	202,783	79.0	20,733	8.1
Moderate-income	904,984	257,733	16.6	28.5	588,864	65.1	58,387	6.5
Middle-income	932,499	444,580	28.6	47.7	436,403	46.8	51,516	5.5
Upper-income	1,329,338	816,521	52.6	61.4	435,913	32.8	76,904	5.8
Unknown-income	2,277	135	0.0	5.9	1,835	80.6	307	13.5
<b>Total AA</b>	<b>3,425,736</b>	<b>1,552,091</b>	<b>100.0</b>	<b>45.3</b>	<b>1,665,798</b>	<b>48.6</b>	<b>207,847</b>	<b>6.1</b>
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	30,238	6.4	26,208	6.2	2,710	7.8	1,320	8.2
Moderate-income	89,634	19.0	78,942	18.7	7,223	20.9	3,469	21.7
Middle-income	122,409	25.9	108,321	25.7	9,764	28.3	4,324	27.0
Upper-income	225,266	47.6	204,924	48.5	13,745	39.8	6,597	41.2
Unknown-income	5,229	1.1	3,811	0.9	1,120	3.2	298	1.9
<b>Total AA</b>	<b>472,776</b>	<b>100.0</b>	<b>422,206</b>	<b>100.0</b>	<b>34,562</b>	<b>100.0</b>	<b>16,008</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>89.3</b>		<b>7.3</b>		<b>3.4</b>	
2014 Median Family Income <sup>3</sup>			\$62,295		December 2014 Median Housing Value <sup>4</sup>		\$464,650	
2014 HUD Adjusted Median Family Income <sup>5</sup>			\$60,600		2014 Unemployment Rate <sup>6</sup>		8.2%	

<sup>3</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2014; available from: <http://factfinder2.census.gov>.

<sup>4</sup> California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/http://www.car.org/marketdata/data/housingdata/>.

<sup>5</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.htm>

<sup>6</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 5 ASSESSMENT AREA DEMOGRAPHICS LOS ANGELES COUNTY ASSESSMENT AREA 2010 U.S. CENSUS AND 2015 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	211	9.0	154,899	7.1	56,456	36.4	522,024	24.1
Moderate-income	672	28.6	603,256	27.8	124,935	20.7	356,500	16.4
Middle-income	628	26.8	607,359	28.0	59,835	9.9	382,899	17.6
Upper-income	798	34.0	804,630	37.1	32,395	4.0	908,804	41.9
Unknown-income	37	1.6	83	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>2,346</b>	<b>100.0</b>	<b>2,170,227</b>	<b>100.0</b>	<b>273,621</b>	<b>12.6</b>	<b>2,170,227</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	256,638	33,122	2.1	12.9	202,783	79.0	20,733	8.1
Moderate-income	904,984	257,733	16.6	28.5	588,864	65.1	58,387	6.5
Middle-income	932,499	444,580	28.6	47.7	436,403	46.8	51,516	5.5
Upper-income	1,329,338	816,521	52.6	61.4	435,913	32.8	76,904	5.8
Unknown-income	2,277	135	0.0	5.9	1,835	80.6	307	13.5
<b>Total AA</b>	<b>3,425,736</b>	<b>1,552,091</b>	<b>100.0</b>	<b>45.3</b>	<b>1,665,798</b>	<b>48.6</b>	<b>207,847</b>	<b>6.1</b>
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	31,731	6.4	28,588	6.2	3,093	7.9	50	6.7
Moderate-income	93,430	18.7	85,296	18.6	7,995	20.4	139	18.6
Middle-income	128,759	25.8	117,545	25.6	10,996	28.0	218	29.1
Upper-income	239,438	48.0	223,263	48.7	15,863	40.4	312	41.7
Unknown-income	5,565	1.1	4,206	0.9	1,329	3.4	30	4.0
<b>Total AA</b>	<b>498,923</b>	<b>100.0</b>	<b>458,898</b>	<b>100.0</b>	<b>39,276</b>	<b>100.0</b>	<b>749</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>92.0</b>		<b>7.9</b>		<b>0.2</b>	
2015 Median Family Income <sup>7</sup>			\$59,134		December 2015 Median Housing Value <sup>8</sup>		\$502,750	
2015 HUD Adjusted Median Family Income <sup>9</sup>			\$63,000		2015 Unemployment Rate <sup>10</sup>		6.6%	

<sup>7</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2015; available from: <http://factfinder2.census.gov>.

<sup>8</sup> California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/http://www.car.org/marketdata/data/housingdata/>.

<sup>9</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il15/index.htm>.

<sup>10</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 6 ASSESSMENT AREA DEMOGRAPHICS LOS ANGELES COUNTY ASSESSMENT AREA 2010 U.S. CENSUS AND 2016 DUN AND BRADSTREET DATA								
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	#	%	#	%	#	%	#	%
Low-income	211	9.0	154,899	7.1	56,456	36.4	522,024	24.1
Moderate-income	672	28.6	603,256	27.8	124,935	20.7	356,500	16.4
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Upper-income	798	34.0	804,630	37.1	32,395	4.0	908,804	41.9
Unknown-income	37	1.6	83	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>2,346</b>	<b>100.0</b>	<b>2,170,227</b>	<b>100.0</b>	<b>273,621</b>	<b>12.6</b>	<b>2,170,227</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	256,638	33,122	2.1	12.9	202,783	79.0	20,733	8.1
Moderate-income	904,984	257,733	16.6	28.5	588,864	65.1	58,387	6.5
Middle-income	932,499	444,580	28.6	47.7	436,403	46.8	51,516	5.5
Upper-income	1,329,338	816,521	52.6	61.4	435,913	32.8	76,904	5.8
Unknown-income	2,277	135	0.0	5.9	1,835	80.6	307	13.5
<b>Total AA</b>	<b>3,425,736</b>	<b>1,552,091</b>	<b>100.0</b>	<b>45.3</b>	<b>1,665,798</b>	<b>48.6</b>	<b>207,847</b>	<b>6.1</b>
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	28,683	6.3	25,405	6.1	3,177	7.9	101	5.2
Moderate-income	84,721	18.5	76,199	18.3	8,252	20.5	270	13.8
Middle-income	117,542	25.7	105,739	25.4	11,346	28.2	457	23.4
Upper-income	221,667	48.4	204,473	49.2	16,126	40.1	1,068	54.8
Unknown-income	5,125	1.1	3,740	0.9	1,331	3.3	54	2.8
<b>Total AA</b>	<b>457,738</b>	<b>100.0</b>	<b>415,556</b>	<b>100.0</b>	<b>40,232</b>	<b>100.0</b>	<b>1,950</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>90.8</b>		<b>8.8</b>		<b>0.4</b>	
2016 Median Family Income <sup>11</sup>			\$61,338		December 2016 Median Housing Value <sup>12</sup>		\$519,280	
2016 HUD Adjusted Median Family Income <sup>13</sup>			\$62,400		2016 Unemployment Rate <sup>14</sup>		5.2%	

<sup>11</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2016; available from: <http://factfinder2.census.gov>.

<sup>12</sup> California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/http://www.car.org/marketdata/data/housingdata/>.

<sup>13</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il16/index.htm>.

<sup>14</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

## Economic Conditions

The economic conditions in the Los Angeles assessment area, which is home to a diverse and dynamic workforce of almost four million people, improved during the review period. The area is a major center for manufacturing, trade and technology and is home to the largest manufacturing center in the U.S.<sup>15</sup> The largest sectors by employment include transportation equipment, apparel, and fabricated metal products.<sup>16</sup> In terms of trade, the Los Angeles Customs District, which includes the ports of Long Beach, Los Angeles, Port Hueneme and Los Angeles International Airport, was the nation's largest in 2014, with a two-way trade value of \$416.6 billion.<sup>17</sup> While an ease in trading caused the value of export goods to fall 10 percent in 2015 and inhibited further acceleration of the economy, imports, which drive the overall growth at the ports, were down only fractionally.<sup>18</sup> Technology is also a major driver of the area's new economy and this sector includes biomedical, digital information technology, and environmental technology.<sup>19</sup> However, "Silicon Beach," which has served as an attractive prospect for companies that would have otherwise relocated to the San Francisco Bay Area, faced headwinds and dampened growth due to financial market volatility. Despite growth in the number of venture capital and angel investor firms in the past 10 years, venture capital investment has shrunk from \$1.2 billion in the first quarter of 2015 to \$300 million a year later because of falling share prices and financial market volatility during the review period.<sup>20</sup> Overall, the county experienced economic improvement largely due to ongoing expansion and construction as well as the growth of the technology sector.<sup>21</sup>

Economic improvements in the assessment area can be seen in small business lending. As depicted in Exhibit 7 on the following page, a review of small business loan data reported by banks subject to the CRA shows that the number and amount of loans to small businesses in the assessment area are improving. However, lending levels remain well below levels achieved prior to the Great Recession.<sup>22</sup> Lending to small businesses plays a critical role in the economy given that small businesses represented 90.8 percent of all businesses in the assessment area as depicted in Exhibit 6, on the preceding page.

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<sup>15</sup> Los Angeles County Economic Development Corporation, Industry Clusters in Los Angeles, available from: [http://laedc.org/documents/industryclusters\\_online.pdf](http://laedc.org/documents/industryclusters_online.pdf).

<sup>16</sup> Los Angeles County Economic Development Corporation, L.A. Stats 2015, available from: [http://laedc.org/wp-content/uploads/2014/08/2015-LA-Stats\\_Final.pdf](http://laedc.org/wp-content/uploads/2014/08/2015-LA-Stats_Final.pdf).

<sup>17</sup> Ibid.

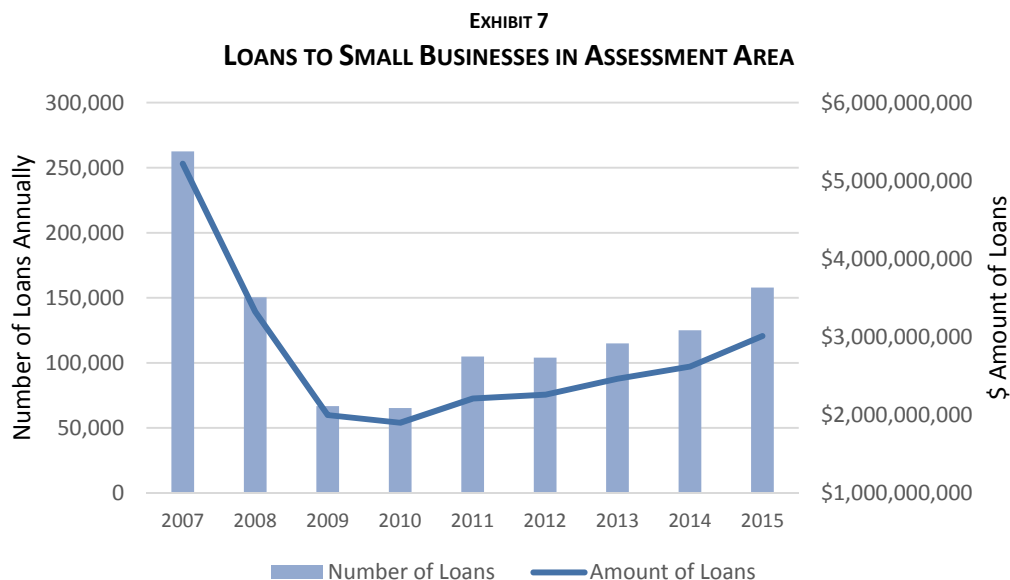
<sup>18</sup> Moody's Précis Report, Los Angeles, April 2016.

<sup>19</sup> Los Angeles County Economic Development Corporation, L.A. Stats 2015, available from: [http://laedc.org/wp-content/uploads/2014/08/2015-LA-Stats\\_Final.pdf](http://laedc.org/wp-content/uploads/2014/08/2015-LA-Stats_Final.pdf).

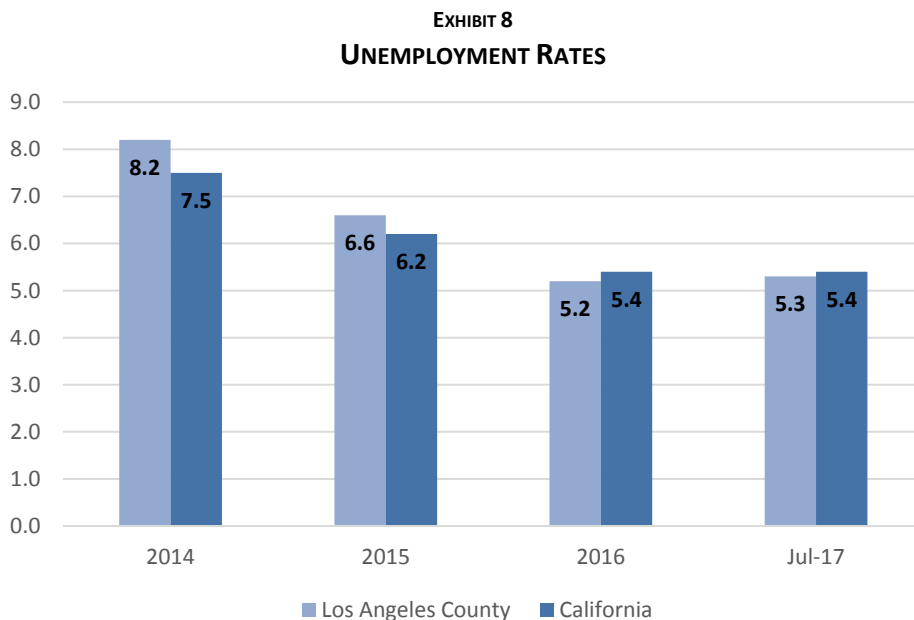
<sup>20</sup> Moody's Précis Report, Los Angeles, April 2016.

<sup>21</sup> Ibid.

<sup>22</sup> Aggregate CRA Small Business data reports available from: <http://www.ffiec.gov/crassessmentareadweb/national.aspx>.



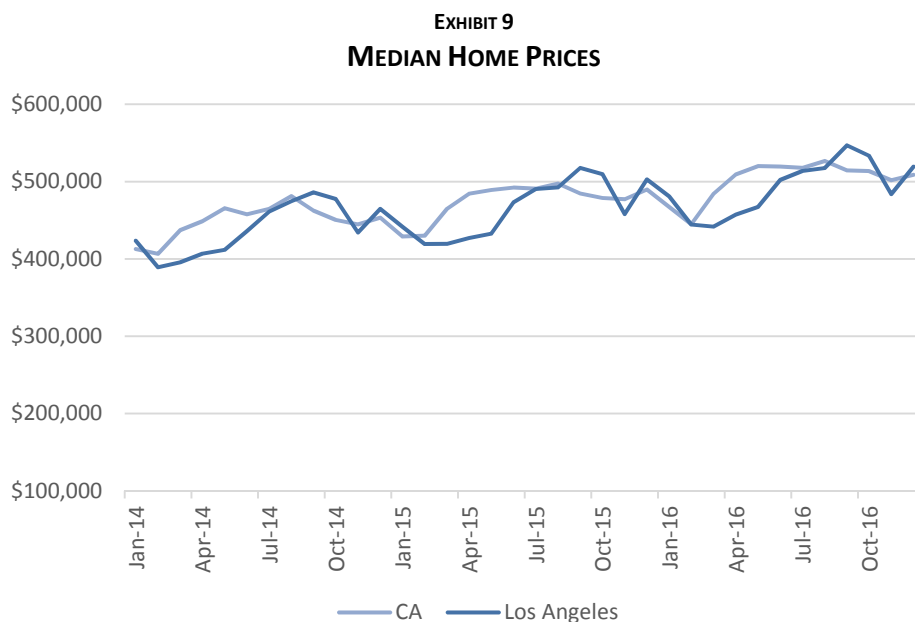
As depicted in Exhibit 8 below, the unemployment rate of Los Angeles County has consistently been lower than the statewide rate. During the review period, the unemployment rate of Los Angeles County declined significantly from 8.2 in 2014 to 5.2 in 2016, indicating an improving economy.



As depicted in Exhibit 9 on the following page, the prices of homes in the assessment area increased significantly during the review period. At the end of 2016, the median home price in Los Angeles County was \$519,280 compared to \$508,870 in California.<sup>23</sup> With rising housing prices, home ownership and rental housing have become less accessible to some households within the assessment area. According to the California Association of Realtors' Traditional Affordability Index, at the end of the review period,

<sup>23</sup> California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/http://www.car.org/marketdata/data/housingdata/>.

26 percent of households in Los Angeles County could afford the median priced home.<sup>24</sup> The Urban Institute, a nonprofit social and economic policy research group, estimates that for every 100 very low income renter households, there are only 18 housing units available and affordable in Los Angeles County.<sup>25</sup>



Finally, as shown in Exhibit 10 on the following page, the poverty rate and food stamp usage rate dropped modestly in Los Angeles County during the review period. Despite the slight decline in poverty rate, poverty rates in Los Angeles County have been consistently higher than statewide average, indicating that the area is more poverty stricken in comparison to other areas across the state of California. In addition to rising housing costs, a variety of factors, such as economic and racial inequities, contribute to the county’s higher poverty rates. According to a recent study from PolicyLink and the USC Program for Environment and Regional Equity, Los Angeles County ranks seventh in income inequality out of the nation’s 150 largest metro regions.<sup>26</sup> Nearly a quarter of the county’s African Americans (24.5 percent) and Latinos (23.7 percent) live below the poverty level, compared with about one in 10 Whites (10.6 percent).<sup>27</sup>

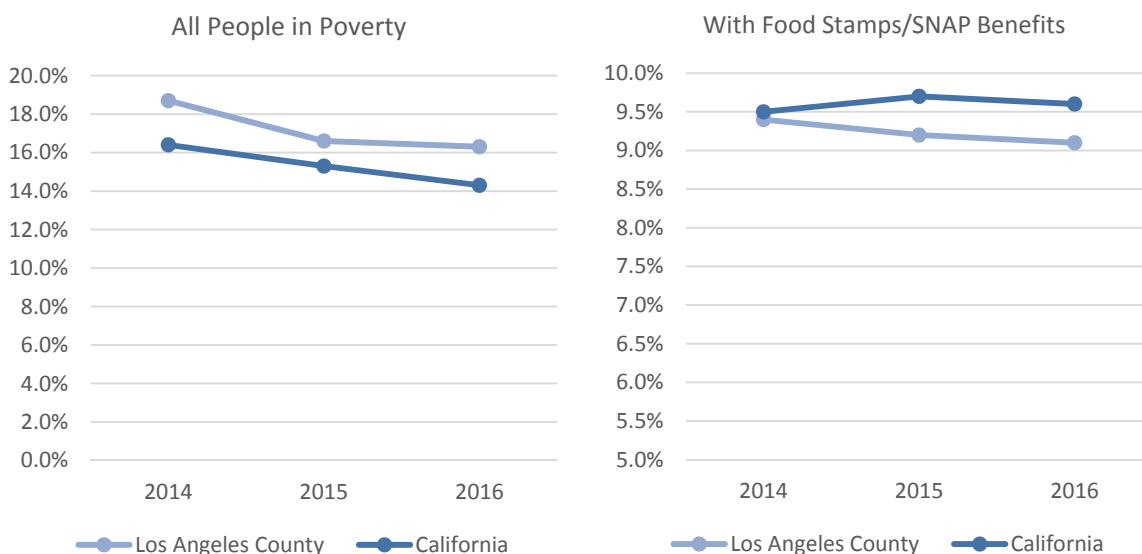
<sup>24</sup> California Association of Realtors, Housing Affordability Index-Traditional; available from: <http://www.car.org/marketdata/data/haitraditional/>.

<sup>25</sup> Urban Institute, Housing Assistance Matters Initiative; available from: <http://www.urban.org/policy-centers/policy-advisorygroup/projects/why-housing-assistance-matters>

<sup>26</sup> PolicyLink and PERE, An Equity Profile of the Los Angeles Region, 2017; available from: <http://bit.ly/laequityprofile>.

<sup>27</sup> Ibid.

**EXHIBIT 10**  
**POVERTY AND FOOD STAMP USAGE RATES**



**Credit and Community Development Needs**

The economic data previously discussed, as well as feedback from community contacts indicate that small businesses in the assessment area face challenges in accessing credit and that some level of small business credit needs remain unmet by area banks. As previously mentioned, CRA reportable small businesses lending levels are improving; however, they remain well below levels experienced prior to the Great Recession. According to the 2016 SBCS, only 33 percent of smaller firm applicants received the full amount of financing dollars they sought and 29 percent received none.<sup>28</sup> Of the financing and credit products sought by businesses, 86 percent of applicants applied for either a business loan or line of credit.<sup>29</sup> A review of community contact information indicates that small businesses are most in need of startup financing, microloans, working-capital loans, and lines of credit in smaller dollar amounts.

A variety of factors mentioned previously establish the need for affordable housing development and financing within the assessment area. Cuts in annual federal and state funding, including elimination of the California redevelopment agencies, have reduced Los Angeles County’s investment in affordable housing production and preservation by more than \$440.0 million annually since 2008, a 62 percent reduction.<sup>30</sup> Due to high housing costs and lack of affordable units, Los Angeles County’s lowest-income renters spend 71 percent of income on rent, leaving little left for food, transportation, health expenses and other needs.<sup>31</sup> In order to meet the needs of its lowest-income renters, the county needs 549,197 more affordable rental homes.<sup>32</sup>

<sup>28</sup> 2016 Small Business Credit Survey, Report on Employer Firms, available from: <https://www.newyorkfed.org/medialibrary/media/smallbusiness/2016/SBCS-Report-EmployerFirms-2016.pdf>.

<sup>29</sup> Ibid.

<sup>30</sup> California Housing Partnership Corporation, Confronting Los Angeles County’s Rent and Poverty Crisis, May 2016; available from: <https://chpc.net/wp-content/uploads/2016/05/Los-Angeles-County.pdf>.

<sup>31</sup> California Housing Partnership Corporation, Confronting Los Angeles County’s Rent and Poverty Crisis, May 2016; available from: <https://chpc.net/wp-content/uploads/2016/05/Los-Angeles-County.pdf>.

Finally, the prevalence of poverty and the need to address the region’s rising economic and racial inequalities discussed earlier highlight the importance of community service organizations within the bank’s communities. Lower revenues resulting from decreased government support and difficulty attracting donations, among other factors, have made it more difficult for local non-profits to meet the needs of an expanding clientele.<sup>33</sup> Furthermore, many households are still struggling from the effects of the Great Recession and those that withdrew funds from emergency accounts during the recession may find themselves significantly disadvantaged as they no longer have assets to draw upon.<sup>34</sup> This lack of financial assets suggests a demand for services placed on community service organizations often results in the need for financial support and technical assistance.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN LOS ANGELES COUNTY

### Lending Test

Overall, PCB’s lending test performance in the Los Angeles County assessment area is satisfactory. The bank’s lending showed a reasonable distribution of loans throughout the assessment area, including penetration in low- and moderate-income geographies, and to businesses of different sizes. Lending levels relative to deposits are reasonable and a majority of loans were extended within the bank’s assessment area.

### *Lending Distribution by Geography*

The geographic distribution of loans is reasonable. As shown in Exhibit 11 below, PCB originated loans in all geographies of different income levels, with strong performance in moderate-income geographies, where PCB’s lending exceeded aggregate lending and the concentration of businesses. Lending in low-income geographies compared reasonably with these same metrics.

EXHIBIT 11 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
<b>Los Angeles Assessment Area 2016</b>								
Bank Lending	2	5.1	10	25.6	11	28.2	16	41.0
Aggregate Lending	19,757	5.4	64,245	17.5	93,099	25.3	191,039	51.9
Business Concentration	28,683	6.3	84,721	18.7	117,542	26.0	221,667	49.0

<sup>32</sup> Ibid.

<sup>33</sup> UCLA Center for Civil Society, Stressed and Stretched; available at <http://civilsociety.ucla.edu>.

<sup>34</sup> Federal Reserve Bank of San Francisco, Rebalancing the American Dream, Summer/Fall 2014; available from: [http://www.frbsf.org/community-development/files/ci\\_vol26no2.pdf](http://www.frbsf.org/community-development/files/ci_vol26no2.pdf).



### ***Lending Distribution by Business Revenue***

The distribution of small business loans by business revenue is reasonable. As shown in Exhibit 12 below, PCB’s lending to small business compared reasonably with the aggregate lending levels, but fell below the percentage of businesses with revenues of less than or equal to \$1 million. However, the bank’s performance relative the latter metric is reasonable given that only a portion of all businesses will demand credit at any point in time. PCB also helped address the need for smaller dollar loans by extending over half of its small business loan in amounts less than \$250,000.

EXHIBIT 12 BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS							
Year	Bank Lending #	Lending to Businesses with Revenue <=\$1 Million			Originations Regardless of Revenue Size by Loan Amount		
		Bank Lending (%)	Businesses <=\$1M in Revenue (%)	Aggregate Lending (%)	<=\$100K (%)	> \$100K & <=\$250K (%)	>250K & <=\$1M (%)
2016	39	30.8	90.8	45.5	25.6	33.3	41.0

### **Community Development Test**

The bank’s performance under the community development test is satisfactory. PCB engaged in an adequate volume of community development activities that demonstrated responsiveness to the need for economic development and community services for low- and moderate-income individuals.

PCB originated a total of five qualified community development loans within this assessment area including three loans totaling \$4.9 million that helped create and retain approximately 171 jobs. The bank also extended one loan, totaling \$660,000 that promoted the retention of eight housing units affordable to low- and moderate-income families and individuals. This loan helped address an identified need for affordable housing. The bank also extended one loan, totaling \$600,000 to an organization that helped address the health needs for low- and moderate-income families and individuals. Notable loans include:

- A \$2 million working capital loan to a janitorial service company that helped create 120 new jobs.
- Two SBA 504 loans, totaling \$2.9 million, to a small business that helped create or retain 51 jobs.

The bank made three investments, totaling \$1.5 million, and one donation, totaling \$3,500, in the Los Angeles County assessment area during the review period. PCB reported no prior period investments since this was the bank’s first examination under the Intermediate Small Institution CRA Examination Procedures. Examples of the qualified investments and donations are provided below:

- Three deposit investments totaling \$1.5 million in minority-owned and minority-servicing institutions.
- One donation totaling \$3,500 to a scholarship fund that seeks to assist minorities and low-and moderate-income students.

PCB provided 128 hours of community development service hours to organizations involved in providing community services within the assessment area. Examples of those services are listed below:

- One employee provided 81 hours of service as a board member and treasurer for an organization that promotes economic development by providing financing to small businesses.
- One employee provided 22 hours as a board member for two organizations that provides community services including health and mental health care, food and shelter services, and technical assistance for low- and moderate-income adults and children.

## ***San Diego Assessment Area***

### **DESCRIPTION OF OPERATIONS IN SAN DIEGO**

San Diego County is located on the coast of southern California, south of Riverside and Orange Counties and north of the United States-Mexico international border, and is part of the San Diego-Tijuana MSA. As of 2016, San Diego County was home to more than 3.3 million people, making it the 2<sup>nd</sup> most populated county in California.<sup>35</sup>

PCB has a limited presence and small percentage of the overall deposit market share in this assessment area. As of June 30, 2016, there were a total of 53 Federal Deposit Insurance Corporation-insured financial institutions operating 597 offices with deposits totaling over \$79.0 billion. PCB has two deposit taking offices and total deposits of \$141.7 million, which accounted for just 0.18 percent of the deposit market share in the area.<sup>36</sup>

Exhibits 13 through 15 on the following pages present key demographic and business information used to help develop a performance context for the assessment area.

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<sup>35</sup> U.S. Census Bureau, *2016 Population Estimates*, San Diego County; available from: <http://quickfacts.census.gov/qfd/index.html>.

<sup>36</sup> Federal Deposit Insurance Corporation, *Deposit Market Share Report*, June 30, 2016; available from: <http://www5.fdic.gov/sod/sodMarketRpt.asp?baritem=2>.

EXHIBIT 13 ASSESSMENT AREA DEMOGRAPHICS SAN DIEGO COUNTY ASSESSMENT AREA 2010 U.S CENSUS AND 2014 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	63	10.0	58,550	8.3	16,591	28.3	157,382	22.4
Moderate-income	134	21.3	139,895	19.9	19,253	13.8	123,504	17.5
Middle-income	227	36.1	250,700	35.6	15,660	6.2	131,950	18.7
Upper-income	198	31.5	254,602	36.2	8,872	3.5	290,911	41.3
Unknown-income	6	1.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>628</b>	<b>100.0</b>	<b>703,747</b>	<b>100.0</b>	<b>60,376</b>	<b>8.6</b>	<b>703,747</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	97,355	19,643	3.3	20.2	70,286	72.2	7,426	7.6
Moderate-income	234,923	85,043	14.3	36.2	128,923	54.9	20,957	8.9
Middle-income	423,992	230,360	38.8	54.3	158,603	37.4	35,029	8.3
Upper-income	398,595	258,899	43.6	65.0	110,023	27.6	29,673	7.4
Unknown-income	9	0	0.0	0.0	9	100.0	0	0.0
<b>Total AA</b>	<b>1,154,874</b>	<b>593,945</b>	<b>100.0</b>	<b>51.4</b>	<b>467,844</b>	<b>40.5</b>	<b>93,085</b>	<b>8.1</b>
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	10,271	6.2	9,275	6.1	620	5.9	376	7.3
Moderate-income	26,866	16.1	24,264	16.1	1,683	16.1	919	17.8
Middle-income	60,269	36.1	54,513	36.1	3,892	37.1	1,864	36.1
Upper-income	69,282	41.5	63,007	41.7	4,269	40.7	2,006	38.8
Unknown-income	136	0.1	115	0.1	16	0.2	5	0.1
<b>Total AA</b>	<b>166,824</b>	<b>100.0</b>	<b>151,174</b>	<b>100.0</b>	<b>10,480</b>	<b>100.0</b>	<b>5,170</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>90.6</b>		<b>6.3</b>		<b>3.1</b>	
2014 Median Family Income <sup>37,40</sup>			\$69,924		December 2014 Median Housing Value <sup>38</sup>		\$494,500	
2014 HUD Adjusted Median Family Income <sup>39</sup>			72,700		2014 Unemployment Rate <sup>40</sup>		6.4 %	

<sup>37</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2014; available from: <http://factfinder2.census.gov>.

<sup>38</sup> California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>.

<sup>39</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html>.

<sup>40</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 14 ASSESSMENT AREA DEMOGRAPHICS SAN DIEGO COUNTY ASSESSMENT AREA 2010 U.S. CENSUS AND 2015 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	63	10.0	58,550	8.3	16,591	28.3	157,382	22.4
Moderate-income	134	21.3	139,895	19.9	19,253	13.8	123,504	17.5
Middle-income	227	36.1	250,700	35.6	15,660	6.2	131,950	18.7
Upper-income	198	31.5	254,602	36.2	8,872	3.5	290,911	41.3
Unknown-income	6	1.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>628</b>	<b>100.0</b>	<b>703,747</b>	<b>100.0</b>	<b>60,376</b>	<b>8.6</b>	<b>703,747</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	97,355	19,643	3.3	20.2	70,286	72.2	7,426	7.6
Moderate-income	234,923	85,043	14.3	36.2	128,923	54.9	20,957	8.9
Middle-income	423,992	230,360	38.8	54.3	158,603	37.4	35,029	8.3
Upper-income	398,595	258,899	43.6	65.0	110,023	27.6	29,673	7.4
Unknown-income	9	0	0.0	0.0	9	100.0	0	0.0
<b>Total AA</b>	<b>1,154,874</b>	<b>593,945</b>	<b>100.0</b>	<b>51.4</b>	<b>467,844</b>	<b>40.5</b>	<b>93,085</b>	<b>8.1</b>
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	10,659	5.9	9,926	5.9	705	5.8	28	8.6
Moderate-income	28,400	15.7	26,441	15.7	1,897	15.6	62	19.0
Middle-income	64,753	35.8	60,142	35.7	4,476	36.7	135	41.4
Upper-income	76,801	42.5	71,615	42.6	5,086	41.7	100	30.7
Unknown-income	140	0.1	116	0.1	23	0.2	1	0.3
<b>Total AA</b>	<b>180,753</b>	<b>100.0</b>	<b>168,240</b>	<b>100.0</b>	<b>12,187</b>	<b>100.0</b>	<b>326</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>93.1</b>		<b>6.7</b>		<b>0.2</b>	
2015 Median Family Income <sup>41</sup>			\$69,364		December 2015 Median Housing Value <sup>42</sup>		\$530,000	
2015 HUD Adjusted Median Family Income <sup>43</sup>			\$73,000		2015 Unemployment Rate <sup>44</sup>		5.2%	

<sup>41</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2015; available from: <http://factfinder2.census.gov>.

<sup>42</sup> California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>.

<sup>43</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il15/index.html>.

<sup>44</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

EXHIBIT 15 ASSESSMENT AREA DEMOGRAPHICS SAN DIEGO COUNTY ASSESSMENT AREA 2010 U.S. CENSUS AND 2016 DUN AND BRADSTREET DATA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	63	10.0	58,550	8.3	16,591	28.3	157,382	22.4
Moderate-income	134	21.3	139,895	19.9	19,253	13.8	123,504	17.5
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Upper-income	198	31.5	254,602	36.2	8,872	3.5	290,911	41.3
Unknown-income	6	1.0	0	0.0	0	0.0	0	0.0
<b>Total AA</b>	<b>628</b>	<b>100.0</b>	<b>703,747</b>	<b>100.0</b>	<b>60,376</b>	<b>8.6</b>	<b>703,747</b>	<b>100.0</b>
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	97,355	19,643	3.3	20.2	70,286	72.2	7,426	7.6
Moderate-income	234,923	85,043	14.3	36.2	128,923	54.9	20,957	8.9
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Upper-income	398,595	258,899	43.6	65.0	110,023	27.6	29,673	7.4
Unknown-income	9	0	0.0	0.0	9	100.0	0	0.0
<b>Total AA</b>	<b>1,154,874</b>	<b>593,945</b>	<b>100.0</b>	<b>51.4</b>	<b>467,844</b>	<b>40.5</b>	<b>93,085</b>	<b>8.1</b>
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	9,721	5.8	8,975	5.8	703	5.6	43	5.9
Moderate-income	26,148	15.6	24,071	15.6	1,977	15.8	100	13.6
Middle-income	59,916	35.7	55,093	35.6	4,585	36.6	238	32.4
Upper-income	71,865	42.8	66,286	42.9	5,226	41.8	353	48.0
Unknown-income	141	0.1	118	0.1	22	0.2	1	0.1
<b>Total AA</b>	<b>167,791</b>	<b>100.0</b>	<b>154,543</b>	<b>100.0</b>	<b>12,513</b>	<b>100.0</b>	<b>735</b>	<b>100.0</b>
<b>Percent of Total Businesses</b>			<b>92.1</b>		<b>7.5</b>		<b>0.4</b>	
2016 Median Family Income <sup>45</sup>			\$71,608		December 2016 Median Housing Value <sup>46</sup>		\$568,000	
2016 HUD Adjusted Median Family Income <sup>47</sup>			\$73,500		2016 Unemployment Rate <sup>48</sup>		4.7%	

<sup>45</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2016; available from: <http://factfinder2.census.gov>.

<sup>46</sup> California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>.

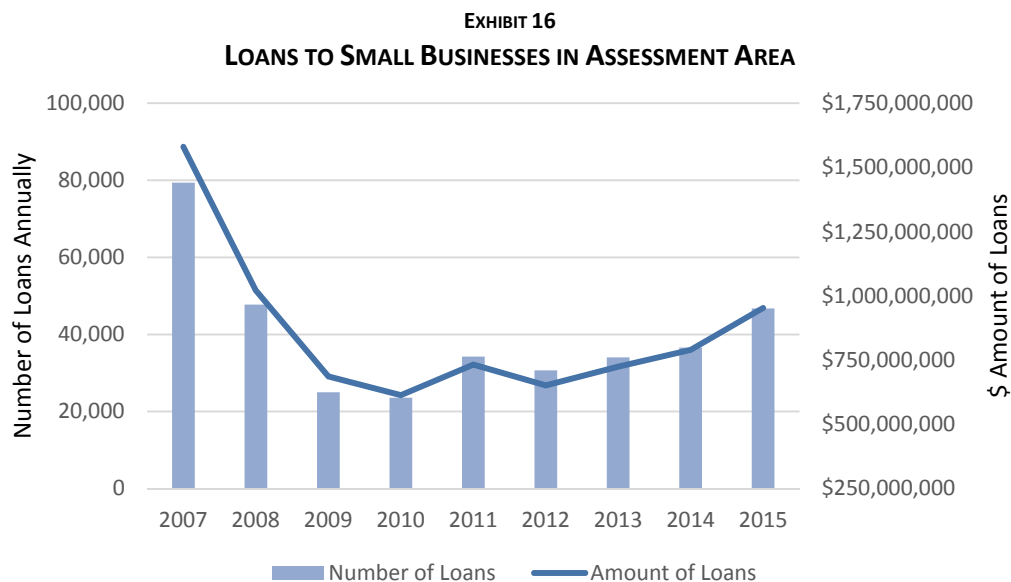
<sup>47</sup> U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il16/index.html>.

<sup>48</sup> U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

## Economic Conditions

During the review period, San Diego’s diverse economy performed well, primarily due to growth in professional services industries. The assessment area has a comparative advantage in services such as data science, biotech, medical devices, software, and military IT, which have contributed to spillover growth throughout the economy.<sup>49</sup> Recognized as one of the leading tech-hubs in the United States, San Diego is home to established companies like Qualcomm and ViaSat and major research universities, such as UC San Diego, that are at the forefront of technology innovation.<sup>50</sup> In 2015, San Diego’s technology cluster accounted for about 3,270 companies and 38,825 employees.<sup>51</sup> In addition, San Diego’s military complex represents the region’s most important economic catalyst. The assessment area is home to the largest concentration of military assets in the world and serves as headquarters for several major national defense contractors. In 2016, San Diego benefitted from more than \$23.3 billion in direct defense spending and was supported by 301,000 military sector jobs, representing one out of every five jobs existing in the county.<sup>52</sup> The Space and Naval Warfare Systems Command alone employs over 5,000 people in San Diego, contributing more than \$734 million in salaries and benefits in the economy.<sup>53</sup>

As shown in Exhibit 16 below, the performance of the economy is also reflected in small business loan data reported by banks subject to the CRA which shows that lending levels are trending upward, but still remain well below the peak reached prior to the Great Depression.



Declining rates of unemployment within the assessment area depicted in Exhibit 17, on the following page, also reflect the overall improvement in the economy during the review period. Consistent with

<sup>49</sup> Moody’s Precis Report, San Diego, April 2016.

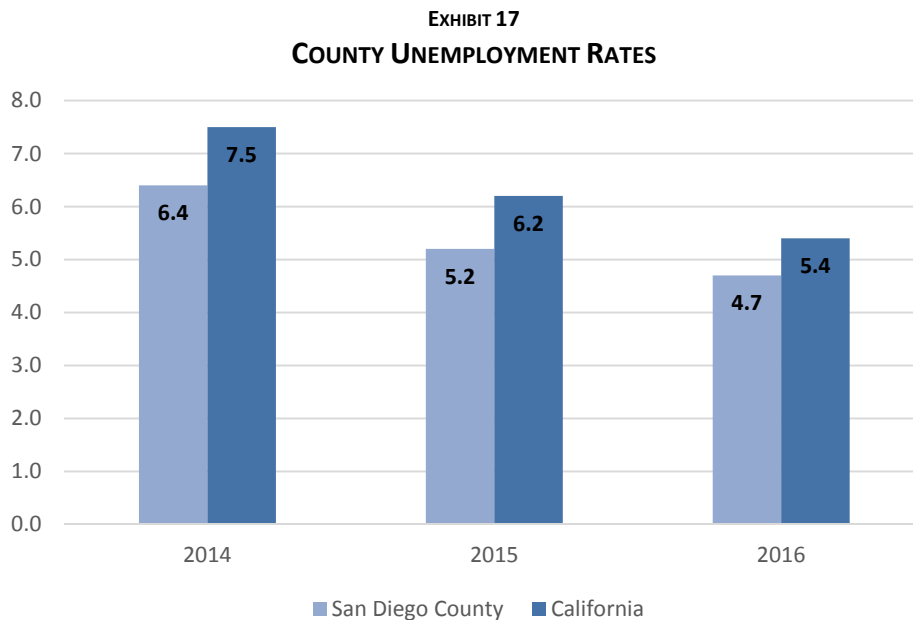
<sup>50</sup> San Diego Regional Economic Development Center, San Diego’s Technology Cluster; available from: <http://www.sandiegobusiness.org/sites/default/files/Technology.pdf>.

<sup>51</sup> Ibid.

<sup>52</sup> San Diego Military Advisory Council, San Diego Military Economic Impact Study 2016; available from: [https://www.sdmac.org/uploads/FBEI\\_2016\\_SDMAC-Full\\_Report\\_R4-Final.pdf](https://www.sdmac.org/uploads/FBEI_2016_SDMAC-Full_Report_R4-Final.pdf).

<sup>53</sup> Ibid.

declines in statewide unemployment rates from 7.5 percent in 2014 to 5.4 percent in 2015, San Diego's unemployment rate declined from 6.4 percent to 4.7 percent during the review period.<sup>54</sup>



As depicted in Exhibit 18 on the following page, the prices of homes in the assessment area increased significantly during the review period. At the end of 2016, the median home price in San Diego County was \$568,000 compared to \$508,870 in California. Consistent with rising home prices, the traditional housing affordability index (which measures the percent of families that can afford to purchase a median priced home) fell in the assessment area during the review period. By the fourth quarter of 2016, only 26 percent of median income households in San Diego County could afford a median priced home (compared to 31 percent statewide).<sup>55</sup> The decline in the affordability index suggests that purchasing a home is becoming increasingly difficult for residents in the area. In addition to home prices, rent prices are also outpacing incomes. Zillow, an online real estate database company, recently surveyed rents in 89 cities across the country and identified six cities as “the unaffordable six” – San Diego being one of them.<sup>56</sup> In each of these markets, the difference between current and historic shares of income needed to afford typical rents was more than double the national average. Out of the six, San Diego has the largest difference, with residents expected to pay 9.6 percentage points more of

<sup>54</sup> U.S. Bureau of Labor Statistics. Local Area Unemployment Statistics by County, 2014-2016 Annual Average; available from: <http://bls.gov/lau/#tables>.

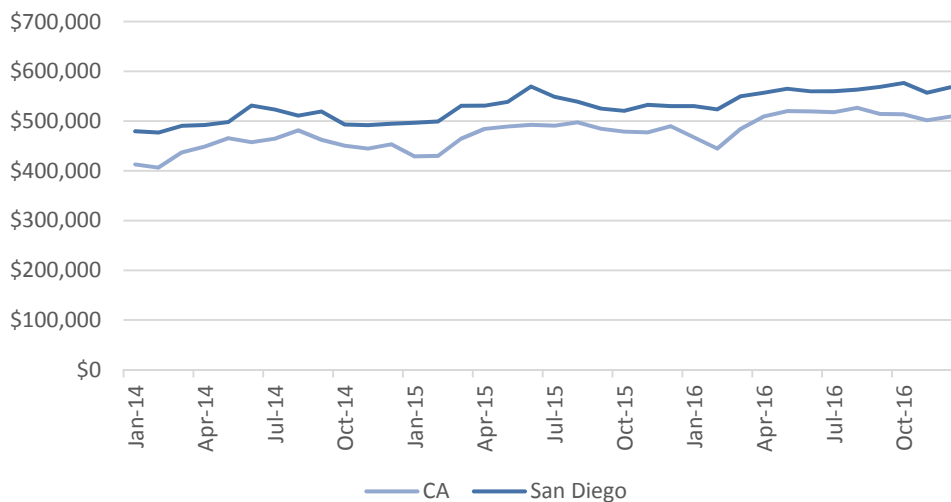
<sup>55</sup> California Association of Realtors, Housing Affordability Index-Traditional; available from: <http://www.car.org/marketdata/data/haltraditlional/>.

<sup>56</sup> San Diego Housing Commission, Addressing the Housing Affordability Crisis in San Diego and Beyond, November 25, 2015; available from [http://www.sdhc.org/uploadedFiles/Media\\_Center/Significant\\_Documents\\_Reports/SDHC%20Housing%20Affordability%20Study%20Report.pdf](http://www.sdhc.org/uploadedFiles/Media_Center/Significant_Documents_Reports/SDHC%20Housing%20Affordability%20Study%20Report.pdf).



their income to rent than they did between 1985 and 2000 (43.2 percent now versus 33.6 percent historically).<sup>57</sup>

**EXHIBIT 18**  
**MEDIAN HOME PRICES**



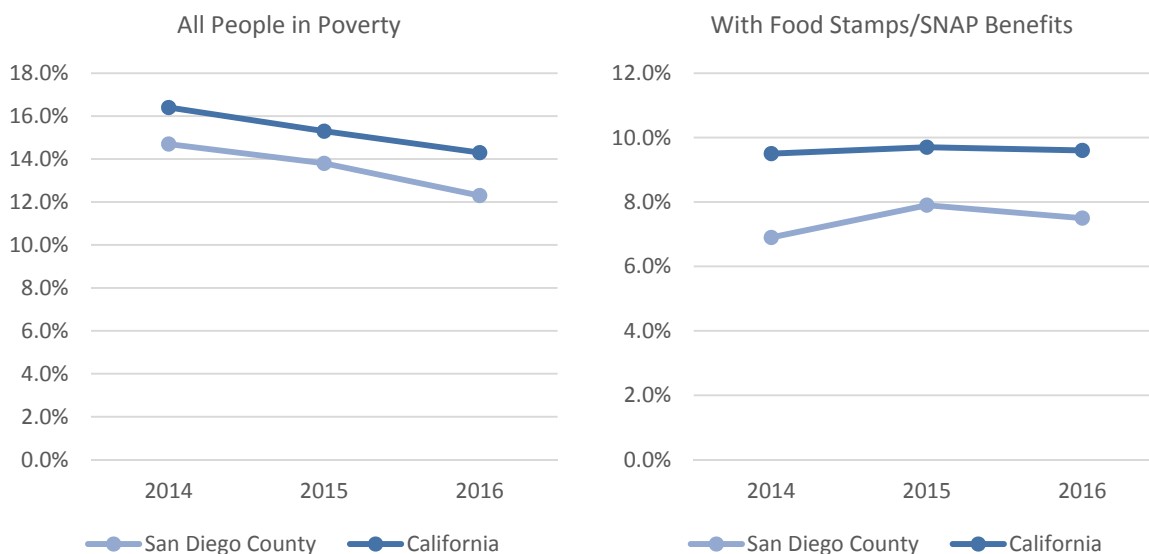
As depicted in Exhibit 19 on the following page, poverty rates show a modest decline statewide and in San Diego County, while food stamp usage rates increased modestly.<sup>58</sup> Poverty rates varied significantly in cities within the county with El Cajon experiencing the highest rate at 22.8 percent while Carlsbad had the lowest rate at 4.6 percent. In San Diego, poverty is particularly dire for children and part-time workers, with the poverty rate being 20.4 percent among children and 20.1 percent among all part-time workers. Even one in five full-time employees earn less than the amount needed for a single person to live self-sufficiently in this region.<sup>59</sup>

<sup>57</sup> Jamie Anderson, Six-Shooter: Why Rent Affordability is Suffering in These Six Markets. April 10, 2015. Available from: <http://www.zillow.com/research/6-least-affordable-rental-markets-9412/>).

<sup>58</sup> U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2013, 2014 and 2015, available from: <http://factfinder2.census.gov>.

<sup>59</sup> Center on Policy Initiatives, Poverty, Earnings and Income in the city of San Diego 2014; available from: [https://d3n8a8pro7vhmx.cloudfront.net/onlinecpi/pages/1153/attachments/original/1443033141/poverty\\_report\\_2015.pdf?1443033141](https://d3n8a8pro7vhmx.cloudfront.net/onlinecpi/pages/1153/attachments/original/1443033141/poverty_report_2015.pdf?1443033141).

**EXHIBIT 19**  
**POVERTY AND FOOD STAMP USAGE RATES**



**Credit and Community Development Needs**

Similar to the Los Angeles assessment area, small businesses in the San Diego assessment area face challenges in accessing credit and certain small business credit needs remain unmet by area banks. A review of information obtained from community contacts in San Diego County suggests that small businesses need access to capital and lines of credit, particularly smaller dollar loans.

High housing costs and low rental affordability and availability highlight a need for products and services that support access to affordable housing. In San Diego, there are approximately 46,000 households on a waiting list to obtain a federal Housing Choice Voucher, a federal program that subsidizes housing for very low income families.<sup>60</sup> Information obtained from community contacts also point to a need for home mortgage and construction loans to finance affordable housing options. There are a number of resources in the area attempting to address these needs that may provide an opportunity for participation by banks.

Finally, the prevalence of poverty and the factors inhibiting economic recovery in low- and moderate-income communities previously discussed highlight the importance of community service organizations within the bank’s communities. The ongoing demand for services often results in needs for these organizations in terms of financial support and technical assistance as they attempt to service significant low- and moderate-income populations within the bank’s assessment area.

<sup>60</sup> San Diego Housing Commission, Rental Assistance, available from: <http://sdhc.org/Rental-Assistance/Waiting-List-Applicants/>.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SAN DIEGO COUNTY

### Lending Test

Overall, PCB's lending test performance in the San Diego County assessment area is excellent. The bank's lending showed an excellent distribution of loans throughout the assessment area and to businesses of different sizes.

### *Lending Distribution by Geography*

The geographic distribution of loans in San Diego County is excellent. As shown in Exhibit 20 below, PCB originated loans in all geographies of different income levels, with notable performance in low- and moderate-income geographies, where PCB significantly exceeded the percent of aggregate lending and business concentration.

EXHIBIT 20 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
<b>San Diego Assessment Area 2016</b>								
Bank Lending	4	14.3	10	35.7	11	39.3	3	10.7
Aggregate Lending	5,386	4.4	17,463	14.1	42,449	34.4	58,116	47.1
Business Concentration	9,721	5.8	26,148	15.6	59,916	35.7	71,865	42.9

### *Lending Distribution by Business Revenue*

The distribution of small business loans by business revenue is excellent. As shown in Exhibit 21 below, lending to businesses with gross annual revenues of \$1 million or less significantly exceeded the percentage of aggregate lending. In addition, half of the bank's small business loan originations were in amounts less than \$250,000. As such, the bank helped address an identified credit need for smaller dollar loans.

EXHIBIT 21 BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS							
Year	Bank Lending #	Lending to Businesses with Revenue <=\$1 Million			Originations Regardless of Revenue Size by Loan Amount		
		Bank Lending (%)	Businesses <=\$1M in Revenue (%)	Aggregate Lending (%)	<=\$100K (%)	> \$100K & <=\$250K (%)	>250K & <=\$1M (%)
2016	28	57.1	92.1	42.1	21.4	28.6	50.0

## Community Development Test

The bank's performance under the community development test is satisfactory. PCB's loans, donations and services demonstrated adequate responsiveness to community needs.

PCB originated a total of five qualified community development loans within the San Diego County assessment area during the review period. This included three loans totaling \$6 million that helped retain and create approximately 40 jobs. The bank also extended one loan, totaling \$2.5 million that promoted the community service health needs and transitional housing for low- and moderate-income individuals. Notable loans include:

- A \$1.5 million loan to expand a restaurant that promoted economic development by helping create approximately 20 low- and moderate-income jobs.
- Another \$2.5 million loan to an organization that provides healthcare services facilities and transitional housing for parolees, probationers, and chemical dependency outpatients.

The bank made one investment, totaling \$249,000, in the San Diego County assessment area during the review period. The investment is a certificate of deposit in a CDFI that primary lends to low- and moderate-income areas in order to promote community development.

PCB provided 73 hours of community development service hours to an organization involved in providing community services within the assessment area. One employee provided 73 hours of service as a member of a credit committee for an organization that promotes credit availability for low- and moderate- income business owners who lack access to traditional sources of credit.

## APPENDIX A

### 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.