

PUBLIC DISCLOSURE

November 28, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**AltaPacific Bank
RSSD #3453737**

**4845 Old Redwood Highway
Santa Rosa, California 95403**

**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.

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INSTITUTION RATING

Institution's CRA Rating

AltaPacific 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	X	X
NEEDS TO IMPROVE		
SUBSTANTIAL NONCOMPLIANCE		

The major factors supporting the institution's rating include:

- A reasonable loan-to-deposit ratio;
- A substantial majority of loans extended within the bank's two assessment areas;
- An adequate geographic distribution of small business loans;
- A reasonable distribution of small business loans to businesses of different sizes, including businesses with gross annual revenues of \$1 million or less; and
- An adequate level of responsiveness to community development needs, particularly addressing the needs for small business credit and affordable housing throughout the bank's assessment areas.

INSTITUTION

Description of Institution

AltaPacific Bank (APB), headquartered in Santa Rosa, California, reported total assets of \$341.7 million as of December 31, 2015. APB is the sole subsidiary of AltaPacific Bancorp (Bancorp), a Santa Rosa, California-based shell bank holding company that was formed on November 6, 2010. On May 2, 2014, Bancorp completed its merger with Mission Oaks Bancorp (Mission) in Temecula, California. This resulted in the merger of Mission's subsidiary bank, Mission Oaks National Bank, with APB, with APB as the surviving institution. APB currently operates five branches, including four branches in Southern California and one branch in Northern California. The bank has no proprietary automated teller machines but offers remote deposit capture as well as internet and mobile banking.

APB primarily focuses on providing commercial banking products and services to small-to-medium sized businesses, professionals, and entrepreneurs. Key business products include commercial real estate loans, construction loans for commercial, multifamily, and residential properties, unsecured and secured commercial loans and lines of credit, and Small Business Administration (SBA) 7(a) and SBA 504 loans. Deposit products offered include business and personal checking accounts, negotiable order of withdrawal accounts, savings accounts, money market deposit accounts, certificates of deposit, and individual retirement accounts. Other products also include business and consumer credit cards offered through a third-party service provider.

Exhibit 1 below shows APB's loan portfolio and commercial lending focus as reflected in its December 31, 2015 Consolidated Reports of Condition and Income:

EXHIBIT 1 LOANS AND LEASES AS OF DECEMBER 31, 2015		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	135,320	59.7
Construction & Land Development	46,062	20.3
Multi-Family Residential Real Estate	23,108	10.2
Secured by 1-4 Family Residential Real Estate	19,378	8.5
Consumer Loans & Credit Cards	2,807	1.2
Total (Gross)	226,675	100.0

APB did not face any legal or financial impediments during the review period preventing 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 Community Reinvestment Act (CRA) examination, conducted as of July 30, 2012, by the Federal Reserve Bank of San Francisco, using the Interagency Small Bank CRA Examination Procedures.

Description of Assessment Area

APB's two assessment areas remain unchanged since the previous examination and consist of the following areas:

- Southern California – consists of the entire counties of:
 - Riverside and San Bernardino, which compose the Riverside-San Bernardino-Ontario, California Metropolitan Statistical Area (MSA); and
 - Los Angeles, which composes the Los Angeles-Long Beach-Glendale Metropolitan Division (MD) and is part of the Los Angeles-Long Beach-Anaheim, California MSA.
- Northern California – consists of the entire counties of:
 - Sonoma, also known as the Santa Rosa, California MSA; and
 - San Francisco and Marin, which are part of the San Francisco-Oakland-Hayward, California MSA.

The institution's primary market is Southern California, which is home to four of the bank's five branch offices and approximately 77.8 percent of the bank's deposits. The Northern California assessment area includes one branch office that holds 22.2 percent of the bank's deposits.¹

Scope of Examination

APB's CRA 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 was subject to a full scope review; however, the Southern California assessment area was weighted more heavily, consistent with the bank's presence and activity within this market.

LENDING TEST

The lending test portion of the evaluation was based upon the following performance criteria:

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

APB'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 135 small business loans originated between January 1, 2014 and December 31, 2015. All 135 small business loans were considered in the evaluation of *Lending in*

¹ Federal Deposit Insurance Corporation, Deposit Market Share Report, June 30, 2016; available from: <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>

the Assessment Area. Of that total, 119 small business loans were extended within the bank's assessment areas. From the 119 small business loans that were extended within the bank's assessment areas, a sample of 100 small business loans was considered in the evaluation of *Lending Distribution by Geography* and *Lending Distribution by Business Revenue*. Home purchase, home improvement, and home refinance loans were also considered during the review; however, there were insufficient volumes to perform meaningful analysis.

COMMUNITY DEVELOPMENT TEST

The community development test portion of the examination included an evaluation of APB'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, 2014 through November 28, 2016.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

APB's overall performance under the lending test is satisfactory. Lending levels compared to the bank's deposits are reasonable and a substantial majority of loans were extended within the bank's assessment areas. APB's small business lending by geographic distribution is reasonable with relatively strong penetration in moderate-income geographies of the institution's larger market area. The distribution of small business loans among businesses of different revenue sizes is also reasonable.

LOAN-TO-DEPOSIT RATIO

APB's loan-to-deposit ratio is reasonable. The bank's average loan-to-deposit ratio over the 16-quarter period ending with September 30, 2016 is 79.3 percent. This ratio compares reasonably with the state and national peer averages of 80.1 percent and 76.6 percent, respectively.

LENDING IN ASSESSMENT AREA

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

EXHIBIT 2 LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS JANUARY 1, 2014 TO DECEMBER 31, 2015								
Loan Type	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Business	119	88.1	34,851	85.9	16	11.9	5,743	14.1
Total Business-Related	119	88.1	34,851	85.9	16	11.9	5,743	14.1
HMDA Home Purchase	2	100.0	2,375	100.0	0	0.0	0	0.0
HMDA Improvement	1	100.0	250	100.0	0	0.0	0	0.0
HMDA Refinance	3	100.0	1,141	100.0	0	0.0	0	0.0
Total HMDA-Related	6	100.0	3,766	100.0	0	0.0	0	0.0
Total Loans	125	88.7	38,617	87.1	16	11.3	5,743	12.9

GEOGRAPHIC AND BORROWER DISTRIBUTION

Overall, the bank's small business lending demonstrates reasonable geographic and borrower distributions in the assessment areas. APB's geographic distribution was relatively stronger in the more heavily weighted Southern California assessment area when compared with the Northern California assessment area. Given the small volume of loans considered in this assessment, the distribution of loans to small businesses was reasonable across the assessment areas relative to the aggregate market and the bank provided smaller dollar loans consistent with the needs of its assessment areas.

RESPONSE TO COMPLAINTS

APB 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

APB’s performance under the community development test is satisfactory. The bank provided an adequate level of community development loans, investments and services that were particularly responsive to the needs for small business financing and providing affordable housing to low-and-moderate-income individuals. As reflected in Exhibit 3 below, the bank also engaged in activities that benefited a broader statewide or regional area, including the origination of three community development loans, totaling \$900,000, to an organization that provides services to low-and-moderate income children. In addition, APB made one low income housing tax credit investment which supported affordable housing in both assessment areas. The bank has committed an additional \$1.8 million to the latter affordable housing investment which has yet to be funded. The details of area specific community development activities are discussed under each respective assessment area.

EXHIBIT 3 COMMUNITY DEVELOPMENT ACTIVITIES								
Assessment Areas	Loans		Investments				Services	
			Prior Period		Current Period			
	#	\$ ('000s)	#	\$ ('000s)	#	\$ ('000s)	#	Hours
Southern California	16	22,020	0	0	19	3,592	19	1,267
Northern California	5	4,911	0	0	7	257	3	688
Broader Statewide or Regional Area	3	900	0	0	1	218	0	0
Total	24	27,831	0	0	27	4,068	22	1,955

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 APB’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.

Southern California

DESCRIPTION OF OPERATIONS IN SOUTHERN CALIFORNIA

The Southern California assessment area consists of Los Angeles, Riverside, and San Bernardino counties. As of 2015, this assessment area was home to more than 14 million people.² APB currently operates four of its five branches in this assessment area, which are located in Covina, Rancho Cucamonga, Riverside, and Temecula.

APB has a limited presence within this highly competitive assessment area. As of June 30, 2016, there were a total of 121 FDIC-insured financial institutions operating 23,954 offices within Los Angeles, Riverside, and San Bernardino counties, with deposits totaling over \$428 billion. APB has four deposit taking offices and total deposits of \$206.9 million, which accounted for just 0.05 percent of the deposit market share in the three-county area.³ In 2015, there were 213 small business lenders operating within the Southern California assessment area subject to the reporting requirements of the CRA. These lenders extended 200,441 small business loans totaling approximately \$3.7 billion.⁴

Exhibits 4 and 5 that follow present key demographic and business information used to help develop a performance context for the assessment area.

² U.S. Census Bureau, *2015 Population Estimates*, Counties of Los Angeles, Riverside, and San Bernardino; available from: <http://quickfacts.census.gov/qfd/index.html>

³ Federal Deposit Insurance Corporation, *Deposit Market Share Report*, June 30, 2016; available from: <http://www5.fdic.gov/sod/sodMarketRpt.asp?baritem=2>

⁴ Information based on 2015 aggregate data consisting of institutions required to file annual CRA data.

EXHIBIT 4 ASSESSMENT AREA DEMOGRAPHICS SOUTHERN CALIFORNIA ASSESSMENT AREA 2010 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	258	8.1	203,235	6.5	72,606	35.7	729,274	23.4
Moderate-income	904	28.5	845,748	27.1	168,182	19.9	522,959	16.8
Middle-income	923	29.1	941,438	30.2	91,711	9.7	570,954	18.3
Upper-income	1,041	32.9	1,129,265	36.2	44,251	3.9	1,296,582	41.6
Unknown-income	42	1.3	83	0.0	0	0.0	0	0.0
Total AA	3,168	100.0	3,119,769	100.0	376,750	12.1	3,119,769	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	334,143	57,680	2.4	17.3	244,738	73.2	31,725	9.5
Moderate-income	1,296,522	442,458	18.4	34.1	736,702	56.8	117,362	9.1
Middle-income	1,477,231	754,909	31.4	51.1	582,005	39.4	140,317	9.5
Upper-income	1,790,000	1,152,162	47.9	64.4	508,296	28.4	129,542	7.2
Unknown-income	2,277	135	0.0	5.9	1,835	80.6	307	13.5
Total AA	4,900,173	2,407,344	100.0	49.1	2,073,576	42.3	419,253	8.6
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	36,766	6.0	32,024	5.8	3,106	7.1	1,636	7.8
Moderate-income	125,635	20.3	110,882	20.0	9,976	22.9	4,777	22.9
Middle-income	172,529	27.9	153,501	27.7	13,044	29.9	5,984	28.6
Upper-income	277,556	44.9	253,041	45.7	16,320	37.4	8,195	39.2
Unknown-income	5,298	0.9	3,852	0.7	1,145	2.6	301	1.4
Total AA	617,784	100.0	553,300	100.0	43,591	100.0	20,893	100.0
% of Total Businesses				89.6		7.1		3.4
2014 Median Family Income ⁵			December 2014 Median Housing Value ⁶					
Los Angeles County			\$62,295	Los Angeles County			\$464,650	
Riverside County			\$64,563	Riverside County			\$322,020	
San Bernardino County			\$58,049	San Bernardino County			\$216,020	
2014 HUD Adjusted Median Family Income ⁷			December 2014 Unemployment Rate ⁸					
Los Angeles County			\$60,600	Los Angeles County			7.3%	
Riverside County			\$60,700	Riverside County			6.8%	
San Bernardino County			\$60,700	San Bernardino County			6.6%	

⁵ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2014; available from: <http://factfinder2.census.gov>

⁶ 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/>

⁷ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.htm>

⁸ 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 SOUTHERN CALIFORNIA ASSESSMENT AREA 2010 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	258	8.1	203,235	6.5	72,606	35.7	729,274	23.4
Moderate-income	904	28.5	845,748	27.1	168,182	19.9	522,959	16.8
Middle-income	923	29.1	941,438	30.2	91,711	9.7	570,954	18.3
Upper-income	1,041	32.9	1,129,265	36.2	44,251	3.9	1,296,582	41.6
Unknown-income	42	1.3	83	0.0	0	0.0	0	0.0
Total AA	3,168	100.0	3,119,769	100.0	376,750	12.1	3,119,769	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	334,143	57,680	2.4	17.3	244,738	73.2	31,725	9.5
Moderate-income	1,296,522	442,458	18.4	34.1	736,702	56.8	117,362	9.1
Middle-income	1,477,231	754,909	31.4	51.1	582,005	39.4	140,317	9.5
Upper-income	1,790,000	1,152,162	47.9	64.4	508,296	28.4	129,542	7.2
Unknown-income	2,277	135	0.0	5.9	1,835	80.6	307	13.5
Total AA	4,900,173	2,407,344	100.0	49.1	2,073,576	42.3	419,253	8.6
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	38,645	5.8	34,993	5.7	3,551	7.2	101	8.6
Moderate-income	132,445	20.0	121,071	19.8	11,090	22.4	284	24.2
Middle-income	184,058	27.8	169,002	27.7	14,713	29.7	343	29.2
Upper-income	300,241	45.4	280,951	46.0	18,873	38.1	417	35.5
Unknown-income	5,660	0.9	4,271	0.7	1,359	2.7	30	2.6
Total AA	661,049	100.0	610,288	100.0	49,586	100.0	1,175	100.0
% of Total Businesses				92.3		7.5		0.2
2015 Median Family Income ⁹				December 2015 Median Housing Value ¹⁰				
Los Angeles County			\$65,789	Los Angeles County			\$502,750	
Riverside County			\$65,913	Riverside County			\$348,020	
San Bernardino County			\$59,752	San Bernardino County			\$234,080	
2015 HUD Adjusted Median Family Income ¹¹				December 2015 Unemployment Rate ¹²				
Los Angeles County			\$63,000	Los Angeles County			5.7%	
Riverside County			\$60,500	Riverside County			6.0%	
San Bernardino County			\$60,500	San Bernardino County			5.7%	

⁹ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2015; available from: <http://factfinder2.census.gov>

¹⁰ California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>

¹¹ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.htm>

¹² U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>

Economic Conditions

Los Angeles County is the most populous county in the nation, and it is home to a diverse and dynamic workforce of almost 4 million people. It is also a major center for manufacturing, trade and technology.¹³ It has the largest manufacturing center in the U.S., and the largest sectors by employment are transportation equipment, apparel, and fabricated metal products.¹⁴ 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.¹⁵ 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.¹⁶ Finally, technology is a major driver of the area's new economy. This sector includes biomedical, digital information technology, and environmental technology, all of which is built upon the advanced technical research capabilities in the county.¹⁷ 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 ten 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.¹⁸ Overall, the county continued to recover from the Great Recession with ongoing expansion and construction and tech on the vanguard of the recovery for the last five years.¹⁹

San Bernardino and Riverside counties together make up the interior region known as the "Inland Empire." With its available land for large facilities and close proximity to the Los Angeles Customs District, the Inland Empire has become a major hub for transportation and storage.²⁰ Consequently, international trade is a strong driver of the local economy. The Los Angeles/Ontario International Airport is a key UPS center, handling domestic packages and providing transportation services to Asia. Additionally, new jobs created in Riverside County over the past two years, fueled by new facilities such as Amazon's massive warehouses, have enabled income growth to separate from and significantly exceed the national average for the past year.²¹ The area also contains many large distribution centers that move goods between Southern California's ports and the rest of the U.S. The Los Angeles ports are in the midst of a multiyear infrastructure expansion as investment in new cranes, shipping bridges, tractors, and on-dock rail capacity, combined with geographic and geological advantages, will ensure that Los Angeles' share of U.S. imports will remain robust or even increase.

¹³ Los Angeles County Economic Development Corporation, Industry Clusters in Los Angeles, available from: http://laedc.org/documents/industryclusters_online.pdf

¹⁴ 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

¹⁵ Ibid.

¹⁶ Moody's Précis Report, Los Angeles, April 2015.

¹⁷ 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

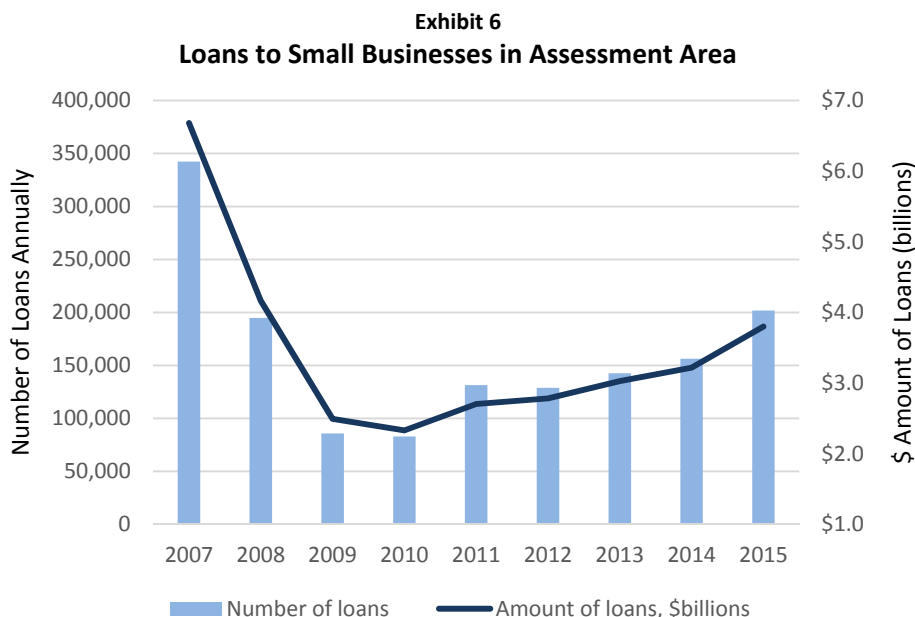
¹⁸ Moody's Précis Report, Los Angeles, April 2016.

¹⁹ Moody's Précis Report, Los Angeles, April 2016.

²⁰ LAEDC, L.A. Stats 2015; available from: http://laedc.org/wp-content/uploads/2015/08/2015-LA-Stats_Final.pdf

²¹ Moody's Précis Report, Riverside-San Bernardino, April 2016.

The economy has continued to improve during the review period, and these improvements appear to have started to benefit smaller businesses which make up the vast majority of businesses as depicted in Exhibit 6. However, a review of small business loan data reported by banks subject to the CRA suggests that, though improving from recession level lows, lending levels have yet to meet pre-recession levels and continue to be depressed.²² As depicted in Exhibit 6 below, from 2012 to 2015, the number of loans and the dollar amount of those loans in the assessment area consistently increased; however, these figures remain lower than the amounts reported back in 2007.²³ National surveys suggest that depressed demand, uncertainty about the economy, and issues with credit worthiness may help explain the lower levels of lending to small businesses.²⁴



Unemployment data provide additional evidence of a continued economic expansion. As shown in Exhibit 7, the unemployment rate declined significantly throughout the assessment area during the review period, but Riverside and San Bernardino counties still have higher unemployment rates than statewide averages.²⁵ In addition, Los Angeles County added 263,844 jobs, Riverside County added 65,766 jobs, and San Bernardino County added 81,609 jobs during the review period.²⁶

²² Aggregate CRA Small Business data reports available from: <https://www.ffiec.gov/craadweb/national.aspx>.

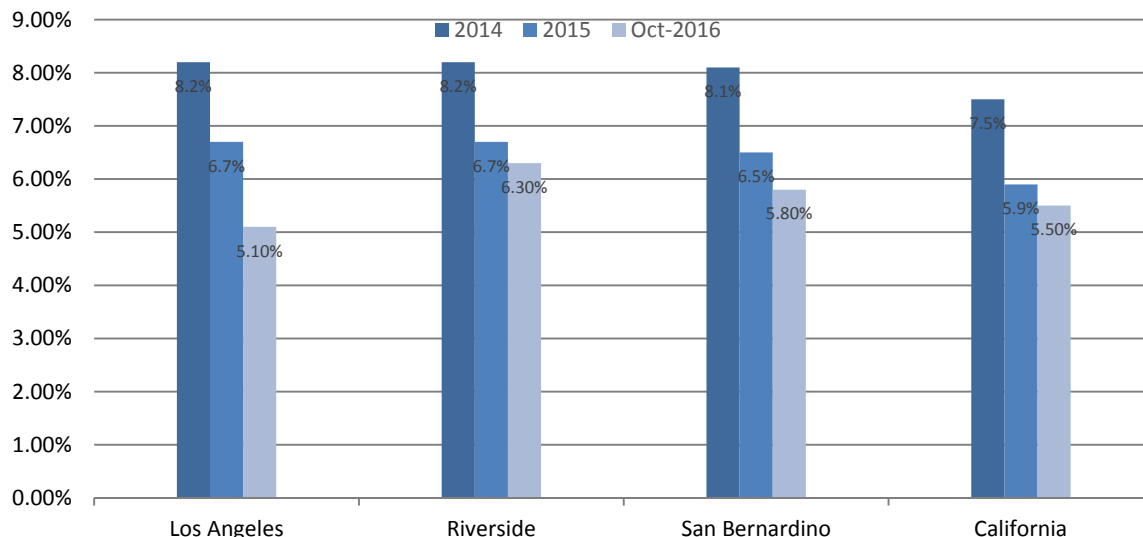
²³ Banks and thrifts are required to report CRA small business data only if they have total assets greater than \$1 billion. While Exhibit 6 provides information on small businesses lending trends among large banks, these trends are not necessarily representative of those among small and intermediate sized banks. Information based on 2007-2015 aggregate data consisting of institutions required to file annual CRA data; available from: <https://www.ffiec.gov/cra/craproducts.htm> <https://www.ffiec.gov/cra/craproducts.htm>

²⁴ Wiersch, Anne Marie. Good News and Bad News on Small Business Lending in 2014. January 5, 2015; available from: <https://www.clevelandfed.org/en/Newsroom%20and%20Events/Publications/Community%20Development%20Briefs/Briefs/Good%20News%20and%20Bad%20News%20on%20Small%20Business%20Lending%20in%202014.aspx>.

²⁵ Bureau of Labor Statistics, Local Area Unemployment Statistics by County, annual average; available from: <http://www.bls.gov/lau/>

²⁶ Bureau of Labor Statistics, Quarterly Census of Employment and Wages; available from <http://www.bls.gov/cew/>

Exhibit 7
Unemployment Rates
2014, 2015, YTD 2016 (through October)



Despite improvements in the unemployment rates, much of the job growth has been dominated by lower-paying service jobs,²⁷ and respondents to the Federal Reserve Bank of San Francisco’s *Vantage Point* Survey noted that the lack of education among low-income residents in the assessment area makes it difficult for those who want to transition out of these lower-paying jobs.²⁸

The prices of homes in the assessment area have continued to rise subsequent to the Great Recession, consistent with improving trends in the economy. While home prices in the area remain below their peak in 2007, prices rose significantly during the review period, as depicted in Exhibit 8. During the review period, home prices increased by 19.3 percent in Los Angeles County, 18.3 percent in Riverside County, 29.9 percent in San Bernardino County, and 12.8 percent statewide.²⁹

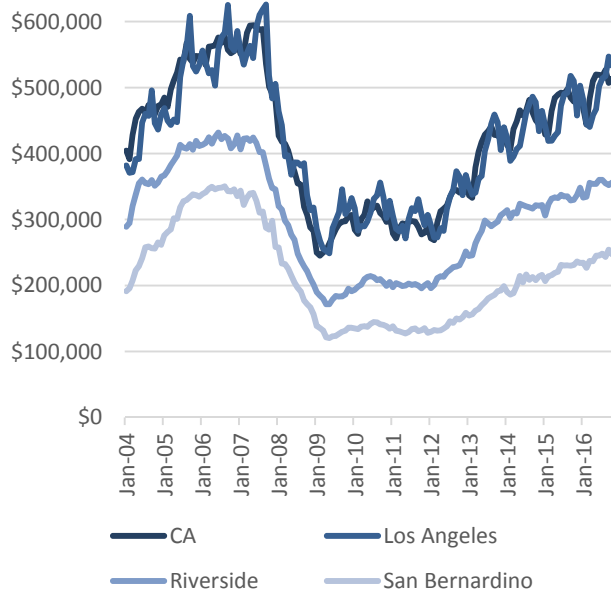
²⁷ Kirkham, Chris. Southland adding jobs at rapid pace but many have low pay, reports say. Los Angeles Times. December 4, 2014; available from: <http://www.latimes.com/business/la-fi-wage-stagnation-20141205-story.html>

²⁸ Federal Reserve Bank of San Francisco’s *Vantage Point* Survey. December 2014 and November 2015

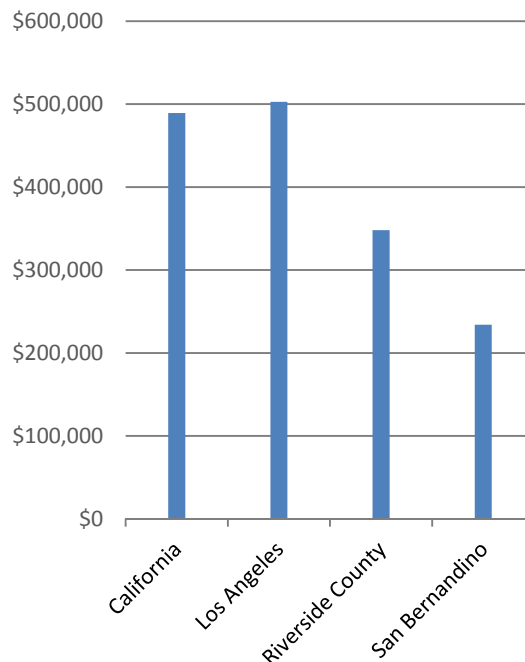
²⁹ California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>

**Exhibit 8
Median Home Prices**

Median Home Prices since 2004



Median Home Prices, December 2015



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, 26 percent of households in Los Angeles County, 42 percent in Riverside County, and 55 percent in San Bernardino County could afford the median priced home.³⁰ Similarly, rental prices also increased during the review period and at the end of 2015, the most recent data available, median rents were \$1,279 in Los Angeles County, \$1,195 in Riverside County, and \$1,139 in San Bernardino County.³¹ In addition to rising rental rates, falling income among low-income earners as well as lack of funding for affordable units are placing more families at risk of falling into poverty. In both Riverside and San Bernardino counties, a majority of low-income families are spending more than 50 percent of their income on rent and overcrowding is twice the national average.³² 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

³⁰ California Association of Realtors, Housing Affordability Index-Traditional; available from: <http://www.car.org/marketdata/data/haitraditional/>

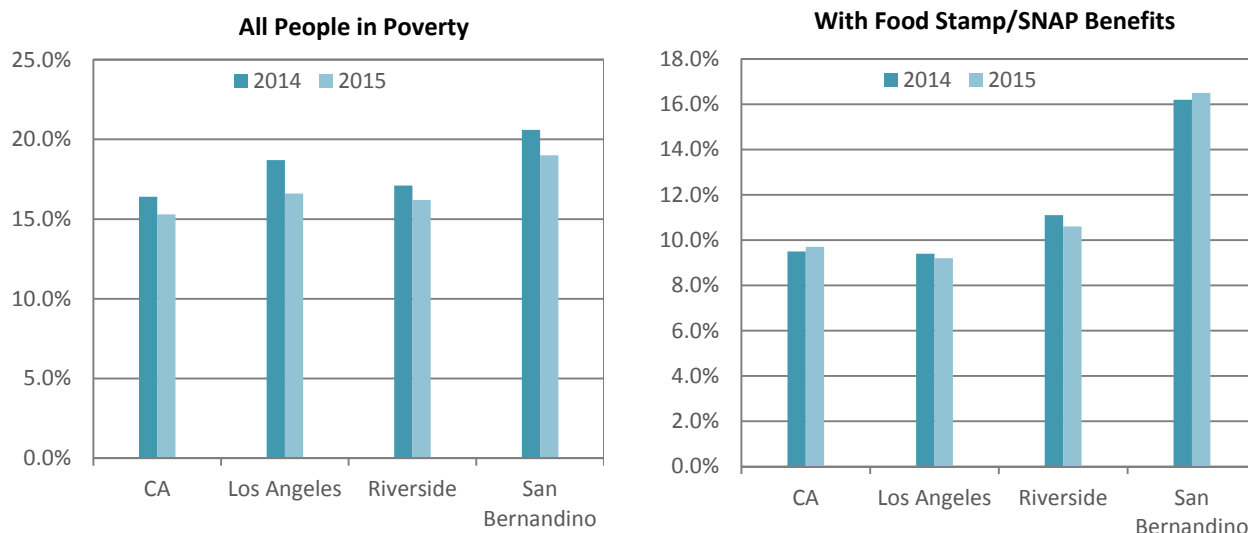
³¹ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP04, 2015, available from: <http://factfinder2.census.gov>

³² California Housing Partnership Corporation, Lack of Affordable Housing Driving More Riverside County Families into Poverty; available from: <http://chpc.net/resources/lack-of-affordable-housing-driving-more-riverside-county-families-into-poverty/>

Angeles County, 18 in Riverside County, and 15 in San Bernardino County.³³ Research by the Center on the Budget of Policy Priorities has also shown that nearly half of the state’s low-income households with severe rent burdens live in Los Angeles, Orange, or San Diego counties.³⁴

Finally, as shown in Exhibit 9, poverty and food stamp usage rates experienced a slight decrease across counties with the exception of San Bernardino County experiencing a slight uptick in food stamp usage. The relatively flat year-over-year change indicates, however, that many individuals are not benefitting from the economic recovery.³⁵ While poverty is a significant issue throughout the assessment area, certain areas are much more impoverished than others. For example, Central Los Angeles, Compton, Westmont, and Victorville all had poverty rates significantly higher than county rates.³⁶ Los Angeles County is also home to the nation’s second largest population of Asian-Americans living in poverty and the largest population of Asian-Americans living in extreme poverty neighborhoods (defined as census tracts where the poverty rate exceeds 40 percent).³⁷

Exhibit 9
Poverty and Food Stamp Usage Rates
2014-2015



³³ Urban Institute, Housing Assistance Matters Initiative; available from: <http://www.urban.org/policy-centers/policy-advisorygroup/projects/why-housing-assistance-matters>

³⁴ Center on the Budget and Policy Priorities, How Housing Vouchers Can Help Address California's Rental Crisis, 2016, available from: <http://www.cbpp.org/research/housing/how-housing-vouchers-can-help-address-californias-rental-crisis>

³⁵ U.S. Census Bureau, American Community Survey 1-Yr Estimate, Selected Social Characteristics DPO3, 2014; available from: <http://factfinder2.census.gov>

³⁶ New York Times, Mapping Poverty in America; available from: <http://www.nytimes.com/newsgraphics/2014/01/05/poverty-map/povertymap/?ref=multimedia>.

³⁷ National Coalition for Asian Pacific American Community Development, Spotlight: Asian American and Pacific Islander Poverty (pg. 31), June 2013; available from: http://nationalcapacd.org/sites/default/files/u12/aapi_poverty_reportweb_compressed.pdf

Credit and Community Development Needs

The economic data previously discussed suggest that small businesses continue to face challenges in accessing credit and that some level of small business credit needs remain unmet by area banks. There is a considerable variation in the credit needs of small businesses, including microloans, working-capital loans and lines of credit. As previously mentioned, data reported by banks subject to the CRA within the assessment area indicates that while small businesses lending levels are improving, they remain significantly depressed relative to levels experienced prior to the Great Recession. Studies suggest that weaker demand for credit among small businesses recovering from the recession and tighter lending standards among banks relative to the prior decade are contributing factors.³⁸

A variety of factors also suggest that there is a lack of affordable housing development and financing within the assessment area. Even in the Inland Empire where homes are more affordable, respondents noted that those homes were still not accessible to lower-income individuals.³⁹ Information obtained from community contacts within the assessment area suggests that credit weaknesses continue to be the biggest barrier on affordability of homes. Credit history and lower-than-average credit scores serve as major impediments to home loan options for low- and moderate-income families. Discussion with contacts also suggested that homeowners need more financial education on home buying and financing in order to ensure homebuyers can afford their mortgage payments. A study by McGraw Hill Financial found that over half of first-time homebuyers do not fully understand the different loan options available to them and 43 percent do not completely understand the process of securing a mortgage.⁴⁰

Finally, the prevalence of poverty and the need for social support services 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.⁴¹ 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.⁴² 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. Ultimately, this has the potential to create community development service or investment opportunities for financial institutions.

³⁸ Federal Reserve Board, Senior Loan Officer Survey, July and October 2015; available from: <http://www.federalreserve.gov/BoardDocs/snloansurvey201508/default.htm>

³⁹ Federal Reserve Bank of San Francisco, Vantage Point Survey, November 2015.

⁴⁰ McGraw Hill Financial, J.D. Power 2014 U.S. Primary Mortgage Origination Satisfaction Study; available from: <http://www.prnewswire.com/news-releases/jd-power-reports-lenders-often-fall-short-in-providing-advice-and-guidance-to-first-time-homebuyers-282547281.html>

⁴¹ UCLA Center for Civil Society, Stressed and Stretched; available at <http://civilsociety.ucla.edu>

⁴² 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

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SOUTHERN CALIFORNIA

Lending Test

Overall lending test performance in the Southern California assessment area is satisfactory. APB's lending showed an adequate distribution of loans in low- and moderate-income geographies in the assessment area and a reasonable distribution of lending to businesses of different sizes.

Lending Distribution by Geography

The geographic distribution of loans is reasonable. As shown in Exhibit 10, APB's lending evidenced strong penetration in moderate-income geographies, exceeding both the aggregate lending performance and business concentration figures. However, the bank slightly underperformed in low-income geographies, falling below aggregate market performance. This performance can be reasonably explained by the small volume of loans considered in the assessment as well as the previously noted sluggish credit demand and significant competition within the assessment area.

EXHIBIT 10 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Southern California Assessment Area 2014								
Bank Lending	0	0.0	7	25.0	13	46.4	8	28.6
Aggregate Lending	17,126	5.3	60,024	18.6	88,483	27.4	157,276	48.7
Business Concentration	36,766	6.0	125,635	20.5	172,529	28.2	277,556	45.3
Southern California Assessment Area 2015								
Bank Lending	1	3.6	8	28.6	8	28.6	11	39.3
Aggregate Lending	19,313	5.3	68,989	18.9	101,068	27.6	176,517	48.2
Business Concentration	38,645	5.9	132,445	20.2	184,058	28.1	300,241	45.8

Lending Distribution by Business Revenue

The distribution of small business loans by business revenue is reasonable. As shown in Exhibit 11, lending to businesses with gross annual revenues of \$1 million or less compared reasonably with aggregate lending. While bank lending fell below the aggregate market, the bank's performance is reasonable in light of significant competition within the assessment area. Additionally, the bank's lending was adequately allocated among the different loan sizes meeting the community's varied small business credit needs.

EXHIBIT 11 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 (%)
2014	28	32.1	89.6	48.4	32.1	28.6	39.3
2015	28	39.3	92.3	54.4	21.4	25.0	53.6

Community Development Test

The bank’s performance under the community development test is satisfactory. APB provided an adequate level of community development activities within the Southern California assessment area. The activities were particularly responsive to the needs for economic development, affordable housing and community services to low-to-moderate-income individuals. APB also engaged in activities that benefited a broader statewide area including the Southern California assessment area.

Community Development Lending

During the review period, APB originated 16 qualified community development loans, totaling \$22.0 million. All qualified loans in this assessment area supported economic development, retaining approximately 115 jobs and helping address financing needs of small businesses. The bank also extended three loans totaling \$900,000 to a broader regional area including the Southern California assessment area. These loans supported an organization focused on providing community services to low-and moderate-income children. Specific notable credits include:

- Two loans totaling \$11.8 million to a local furniture wholesaler employing 15 individuals.
- Two loans totaling \$1.3 million to a local small business employing ten individuals.
- Two loans totaling \$1.2 million to a local warehouse employing 15 individuals.
- Two loans totaling \$643,000 to a local restaurant employing 20 individuals.

Community Development Investments and Donations

APB made five investments totaling \$3.5 million and 14 donations in the amount of \$15,314 in this assessment area during the review period. In addition, the bank made one low-income housing tax credit investment, which supported 159 units of affordable housing in the broader statewide area, including the Southern California assessment area. APB 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:

- A \$2.2 million mortgage-backed security backed by eight home mortgage loans to low-and moderate-income borrowers in Los Angeles County.
- A municipal bond investment with a book balance of \$620,000 that supported one of the largest California school districts where the majority of students are low-and moderate-income children.
- Three certificates of deposit investments totaling \$747,000 in minority-owned institutions.

- Fourteen donations totaling \$15,300 were made to community service organizations seeking to assist low- and moderate-income individuals and families.

Community Development Services

APB provided 1,267 hours of community development services in the assessment area. Examples of those services are listed below:

- A staff member provided 298 hours of service as a board member of a local organization that facilitates economic revitalization and low-income housing, and provides services to small businesses in enterprise zones and distressed and/or underserved geographies.
- One employee dedicated 212 hours of service providing business lending education to local businesses.
- An employee provided 81 hours of service as a member of the board and the development committee of a nonprofit organization whose mission is to help children with special needs related to abuse, neglect, and abandonment.
- Another staff member dedicated 68 hours serving as a committee member of an organization supporting the needs of low- and moderate-income children.

Northern California

DESCRIPTION OF OPERATIONS IN NORTHERN CALIFORNIA

The Northern California assessment area consists of Sonoma, Marin, and San Francisco counties. As of 2015, this assessment area was home to more than 1.6 million people.⁴³ APB is headquartered in Santa Rosa, and its sole branch office in the Northern California assessment area serves as the bank's headquarters.

APB has a limited presence within this highly competitive assessment area. As of June 30, 2016, there were a total of 56 FDIC-insured financial institutions operating 495 offices within Sonoma, Marin, and San Francisco counties, with deposits totaling over \$228 billion. Within the assessment area, APB has one deposit taking office and total deposits of \$60.2 million, which accounted for just 0.03 percent of the deposit market share in the three-county area.⁴⁴ In 2015, there were 125 small business lenders operating within the Northern California assessment area subject to the reporting requirements of the CRA. These lenders extended 29,856 small business loans totaling approximately \$705.8 million.⁴⁵

Exhibits 12 and 13 present key demographic and business information used to develop a performance context for the assessment area.

⁴³ U.S. Census Bureau, *2015 Population Estimates*, Counties of Marin, San Francisco, and Sonoma; available from: <http://quickfacts.census.gov/qfd/index.html>

⁴⁴ Federal Deposit Insurance Corporation, *Deposit Market Share Report*, June 30, 2016; available from: <http://www5.fdic.gov/sod/sodMarketRpt.asp?baritem=2>.

⁴⁵ Information based on 2015 aggregate data consisting of institutions required to file annual CRA data.

EXHIBIT 12 ASSESSMENT AREA DEMOGRAPHICS NORTHERN CALIFORNIA ASSESSMENT AREA 2010 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	39	11.0	25,121	7.6	4,848	19.3	81,474	24.7
Moderate-income	68	19.3	63,464	19.3	6,202	9.8	54,770	16.6
Middle-income	147	41.6	156,651	47.6	7,395	4.7	62,348	18.9
Upper-income	93	26.3	84,024	25.5	2,121	2.5	130,677	39.7
Unknown-income	6	1.7	9	0.0	0	0.0	0	0.0
Total AA	353	100.0	329,269	100.0	20,566	6.2	329,269	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	78,485	8,501	2.8	10.8	59,982	76.4	10,002	12.7
Moderate-income	120,327	49,899	16.3	41.5	59,242	49.2	11,186	9.3
Middle-income	296,431	153,710	50.1	51.9	118,636	40.0	24,085	8.1
Upper-income	190,494	94,425	30.8	49.6	78,300	41.1	17,769	9.3
Unknown-income	21	0	0.0	0.0	21	100.0	0	0.0
Total AA	685,758	306,535	100.0	44.7	316,181	46.1	63,042	9.2
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	17,021	15.8	14,184	14.8	2,041	25.9	796	20.9
Moderate-income	16,043	14.9	14,321	14.9	1,123	14.3	599	15.8
Middle-income	40,708	37.9	37,250	38.9	2,143	27.2	1,315	34.6
Upper-income	33,676	31.3	30,022	31.3	2,564	32.6	1,090	28.7
Unknown-income	30	0.0	23	0.0	6	0.1	1	0.0
Total AA	107,478	100.0	95,800	100.0	7,877	100.0	3,801	100.0
% of Total Businesses				89.1		7.3		3.5
2014 Median Family Income ⁴⁶			December 2014 Median Housing Value ⁴⁷					
Marin County \$127,470			Marin County \$980,000			Marin County \$980,000		
San Francisco County \$100,850			San Francisco County \$1,058,820			San Francisco County \$1,058,820		
Sonoma County \$81,305			Sonoma County \$515,000			Sonoma County \$515,000		
2014 HUD Adjusted Median Family Income ⁴⁸			December 2014 Unemployment Rate ⁴⁹					
Marin County \$97,100			Marin County 3.6%			Marin County 3.6%		
San Francisco County \$97,100			San Francisco County 3.6%			San Francisco County 3.6%		
Sonoma County \$76,900			Sonoma County 4.9%			Sonoma County 4.9%		

⁴⁶ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2014; available from: <http://factfinder2.census.gov>

⁴⁷ California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>

⁴⁸ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html>

⁴⁹ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>

EXHIBIT 13 ASSESSMENT AREA DEMOGRAPHICS NORTHERN CALIFORNIA ASSESSMENT AREA 2010 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	39	11.0	25,121	7.6	4,848	19.3	81,474	24.7
Moderate-income	68	19.3	63,464	19.3	6,202	9.8	54,770	16.6
Middle-income	147	41.6	156,651	47.6	7,395	4.7	62,348	18.9
Upper-income	93	26.3	84,024	25.5	2,121	2.5	130,677	39.7
Unknown-income	6	1.7	9	0.0	0	0.0	0	0.0
Total AA	353	100.0	329,269	100.0	20,566	6.2	329,269	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied		Rental		Vacant		
		#	%	%	#	%	#	%
Low-income	78,485	8,501	2.8	10.8	59,982	76.4	10,002	12.7
Moderate-income	120,327	49,899	16.3	41.5	59,242	49.2	11,186	9.3
Middle-income	296,431	153,710	50.1	51.9	118,636	40.0	24,085	8.1
Upper-income	190,494	94,425	30.8	49.6	78,300	41.1	17,769	9.3
Unknown-income	21	0	0.0	0.0	21	100.0	0	0.0
Total AA	685,758	306,535	100.0	44.7	316,181	46.1	63,042	9.2
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	18,179	15.9	15,676	15.0	2,435	26.7	68	24.7
Moderate-income	16,849	14.8	15,534	14.9	1,261	13.8	54	19.6
Middle-income	42,863	37.6	40,380	38.6	2,396	26.2	87	31.6
Upper-income	36,072	31.6	32,976	31.5	3,030	33.2	66	24.0
Unknown-income	29	0.0	23	0.0	6	0.1	0	0.0
Total AA	113,992	100.0	104,589	100.0	9,128	100.0	275	100.0
% of Total Businesses				91.8		8.0		0.2
2015 Median Family Income ⁵⁰			December 2015 Median Housing Value ⁵¹					
Marin County			\$127,900	Marin County			\$1,100,000	
San Francisco County			\$105,924	San Francisco County			\$1,215,620	
Sonoma County			\$79,788	Sonoma County			\$549,000	
2015 HUD Adjusted Median Family Income ⁵²			December 2015 Unemployment Rate ⁵³					
Marin County			\$101,900	Marin County			3.2%	
San Francisco County			\$101,900	San Francisco County			3.3%	
Sonoma County			\$73,600	Sonoma County			4.2%	

⁵⁰ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2015; available from: <http://factfinder2.census.gov>

⁵¹ California Association of Realtors, Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>

⁵² U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html>

⁵³ 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 Northern California assessment area encompasses three of the nine counties in the Bay Area. Each county within the area has unique characteristics that add to the diversity of the region's economy. The region overall experienced economic growth over the review period. Recently, the Bay Area's economy, as measured by its gross domestic product of \$721 billion, moved up the ranks from 21st to 18th in the world in 2015.⁵⁴

The three-county area contains major economic centers as well as productive agricultural regions. Marin and Sonoma counties are located in the North Bay, with wine manufacturing a cornerstone industry in Sonoma and the tourism sector prominent in both counties. Sonoma County is home to world-class wineries that serve as compelling attractions for high-income tourists.⁵⁵ In 2016, wine drinkers across the demographic spectrum traded up to higher-priced bottles, poising the region for more growth. While robust additions in pivotal tourism and beverage manufacturing has been contributing to steady job growth in Sonoma, the breadth of hiring has expanded with healthcare, financial, and professional services also adding to payrolls in recent months.⁵⁶

Marin County, located directly to the north of San Francisco, supports thriving agricultural, tourism, and biomedical industries. The county's rural regions and inland valleys provide vast land for farm production.⁵⁷ The region has also seen the growth of businesses in software, design, engineering, legal, architecture, and consulting services, becoming a hub for one of the nation's most educated workforces. The white-collar growth drivers are allowing the region to build on the momentum it established in late 2015, with payrolls and incomes increasing at above-average rates.⁵⁸

San Francisco County serves as a major driver of the California economy and one of the nation's economic powerhouses. Tech will remain as the top economic driver in the county, but relentless expansion of tech giants as well as high labor and living costs are pushing non-tech firms out of the region.⁵⁹ According to the *San Francisco Business Times*, the area's 100 largest tech employers added almost 47,000 jobs in the past year, accounting for the vast majority of the economy's job creation.⁶⁰ Education and health services also play a strong role in the county, as the area's top employers include several universities and hospitals.⁶¹

As depicted in Exhibit 14, the improvements in the economy also appear to have started to benefit smaller businesses. An analysis of loans to businesses with revenues of less than \$1 million by institutions subject to the reporting requirements of CRA shows steady improvements in lending levels within the assessment area as depicted below. From 2012 to 2015, the number of loans in the

⁵⁴ Center for Continuing Study of the California Economy, *Regional Economy Rankings 2015*; available from: <http://www.ccse.com/PDF/Numbers-Sept-2016-CA-Regional-Economy-Rankings-2015.pdf>

⁵⁵ Moody's Analytics, *Precis Report*, April 2016, Santa Rosa.

⁵⁶ *Ibid.*

⁵⁷ California Employment Development Department, *Marin County Profile*; available from: <http://www.labormarketinfo.edd.ca.gov>

⁵⁸ Moody's Analytics, *Precis Report*, April 2016, San Rafael.

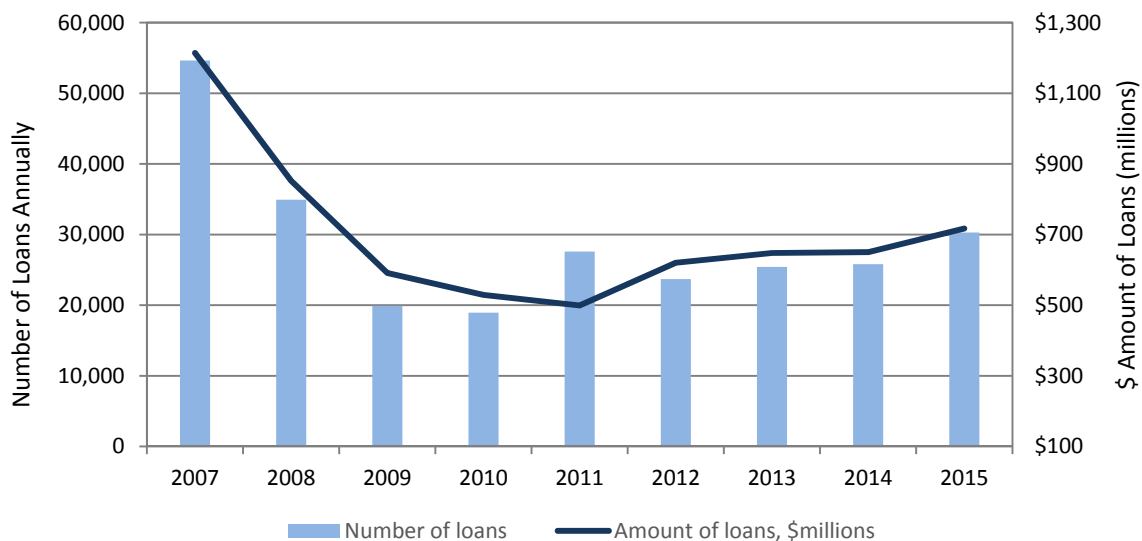
⁵⁹ Moody's Analytics, *Precis Report*, April 2016, San Francisco.

⁶⁰ *Ibid.*

⁶¹ *Ibid.*

assessment area increased from 23,703 to 30,287 and the dollar amount of those loans originated annually increased from \$620 to \$717 million.⁶² These improvements notwithstanding, this level of lending is still a fraction of what it was prior to the Great Recession.⁶³

Exhibit 14
Loans to Small Businesses in Assessment Area



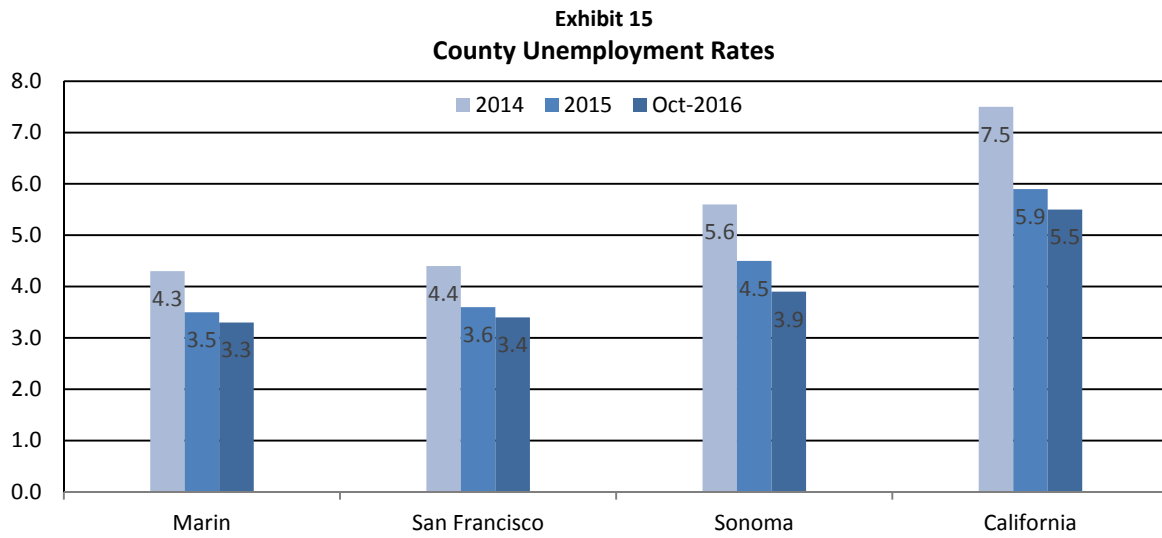
Continued favorable economic growth is reflected in the declining unemployment rates seen in Exhibit 15 on the following page. Annual unemployment rates in each of the counties declined consistently over the past three years and remained below statewide averages.⁶⁴ During the review period, Marin County added 6,346 jobs, Sonoma County added 12,113 jobs, and San Francisco County added 77,408 jobs.⁶⁵

⁶² Banks and thrifts are required to report CRA small business data only if they have total assets greater than \$1 billion. While Exhibit 14 provides information on small businesses lending trends among large banks, these trends are not necessarily representative of those among small and intermediate sized banks. Information based on 2007-2015 aggregate data consisting of institutions required to file annual CRA data; available from: <https://www.ffiec.gov/cra/craproducts.htm>

⁶³ Wiersch, Ann Marie. Good News and Bad News on Small Business Lending in 2014. Federal Reserve Bank of Cleveland; available from: <https://www.clevelandfed.org/en/Newsroom%20and%20Events/Publications/Community%20Development%20Briefs/Briefs/Good%20News%20and%20Bad%20News%20on%20Small%20Business%20Lending%20in%202014.aspx>.

⁶⁴ U.S. Bureau of Labor Statistics. Local Area Unemployment Statistics by County, 2014-2016 Annual Average; available from: <http://bls.gov/lau/#tables>

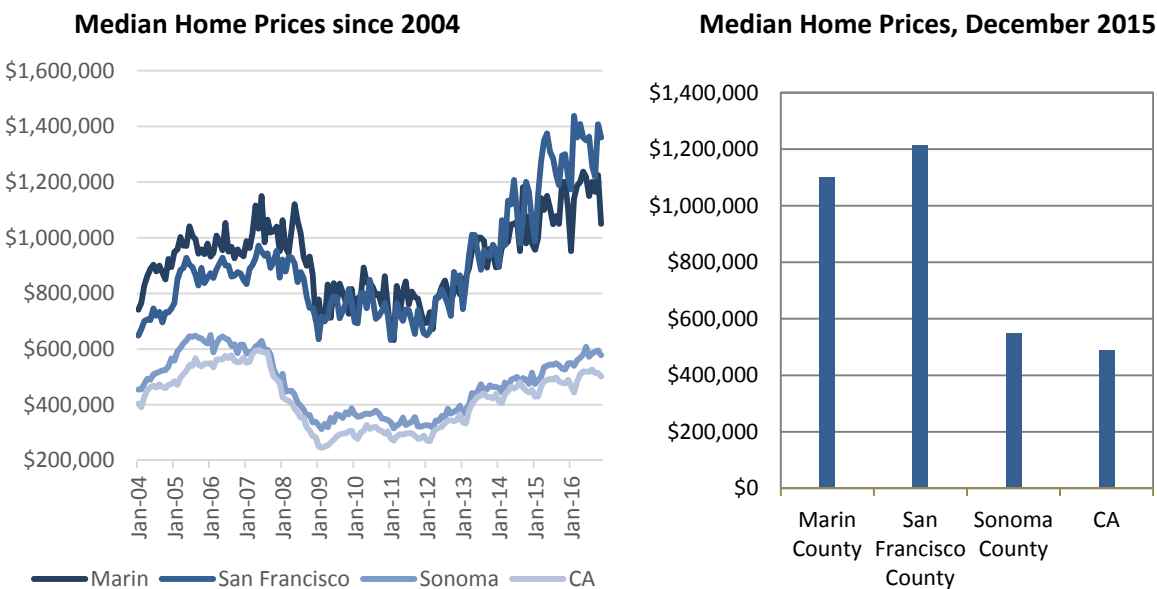
⁶⁵ U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages; available from <http://www.bls.gov/cew/>



Assessment area median home prices increased during the review period, consistent with statewide increases as reflected in Exhibit 16. Strong job growth and high payrolls have led to housing price increases that have exceeded the statewide average. During the review period, all three counties experienced higher percentage increases in median home prices in comparison to the statewide increase in California. From July 2013 to October 2016, median home prices in California increased by 19.8 percent while prices increased by 49.4 percent in San Francisco County, 32.2 percent in Sonoma County, and 22.5 percent in Marin County.⁶⁶

⁶⁶ California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/>

**Exhibit 16
Median Home Prices**



Rising home prices has made home ownership less affordable to many households. According to the C.A.R.'s Traditional Housing Affordability Index, the percentage of households that could afford to purchase the median priced home dropped in all three counties of the assessment area during the review period. The most affordable county in the assessment area was Sonoma where only 27 percent of families could afford the median priced home, a slight uptick since the same quarter last year. The least affordable continues to be San Francisco where only 10 percent of families could afford the median priced home.⁶⁷

Rental prices have also increased during the review period and at the end of 2015, all geographies within the assessment area had higher median rents than the state.⁶⁸ Despite this, the counties within the assessment area contained a smaller share of residents paying more than 35 percent of their income on rent compared to the state as a whole, largely due to their higher than average salaries.⁶⁹ Significantly, these data do not take into account individuals that may be leaving the assessment area due to high housing costs. For example, in San Francisco County alone, between 2008 and 2012, the county experienced a net loss of approximately 30,000 individuals with incomes less than \$35,000.⁷⁰ Additional research conducted under the auspices of UC Berkeley's Urban Displacement Project has revealed that nearly 53 percent of all low-income households in the region live in the neighborhoods at risk of, or already experiencing, displacement. Furthermore, between 2000 and 2013, the region lost

⁶⁷ California Association of Realtors, Housing Affordability Index-Traditional; available from: <http://www.car.org/marketdata/data/haitraditional/>

⁶⁸ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP04, 2015; available from: <http://factfinder2.census.gov>

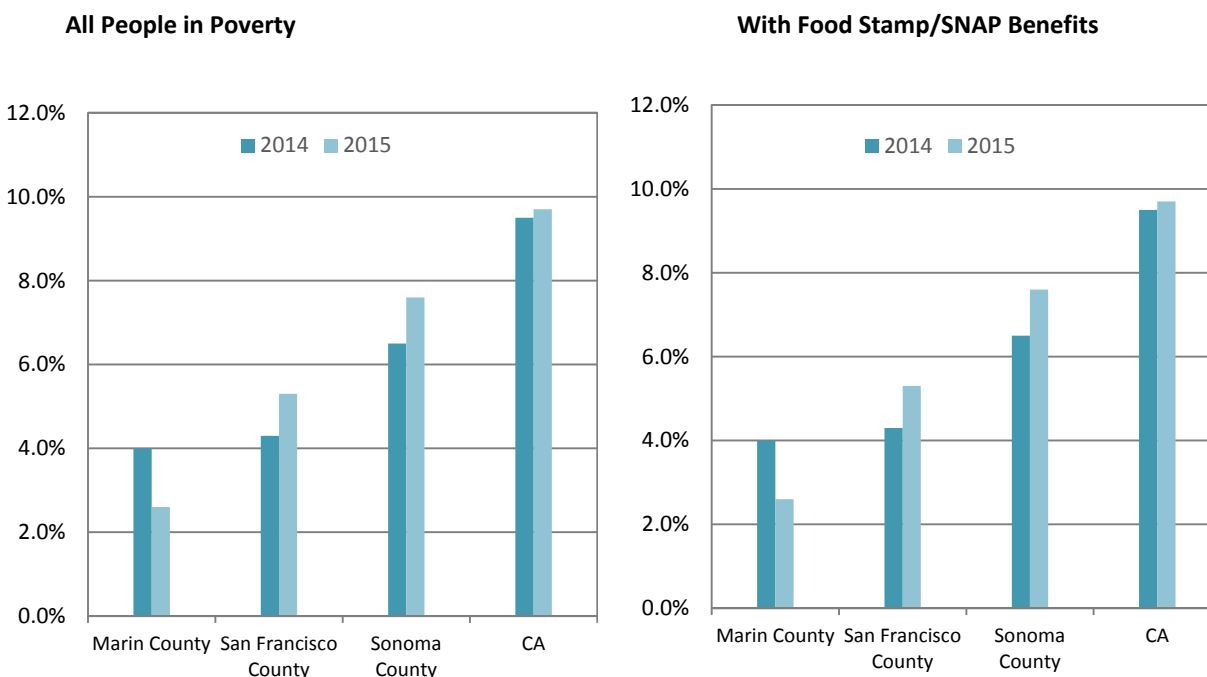
⁶⁹ Ibid.

⁷⁰ Dowling, William, Are San Francisco's Low-Income Residents Moving Up or Moving Out? FRBSF; available from: <http://www.frbsf.org/community-development/blog/san-francisco-low-income-residents-moving-out-gentrification/>

50 percent of the units that were defined as “affordable” for low-income households while, at the same time, the number of low-income households across the region increased by 10 percent.⁷¹

Earlier assessments of the region’s poverty rate and usage of food stamps from 2013 to 2014 showed a decrease, but a reversal can be observed from 2014 to 2015. From 2014 to 2015, the percentage of people living below the poverty level and the percentage of households on food stamps generally increased across the assessment area with the exception of Marin County, as reflected in Exhibit 17.⁷² At the end of 2015, the rates for each county were well below statewide averages. In the FRBSF’s *Vantage Point* survey, community development practitioners pointed to three interwoven factors to the challenges of low- and moderate-income communities: unemployment, instability in household finances, and rising housing costs.⁷³ Reviewing the data presented in the previous exhibits, it is likely that many low- and moderate-income communities still struggle with these same issues.

Exhibit 17
Poverty and Food Stamp Usage Rates
2014-2015



⁷¹ Dan Brekke, A Map of Gentrification in the Bay Area; available from <https://ww2.kqed.org/news/2015/08/27/uc-berkeley-bay-area-gentrification-displacement-map/>

⁷² U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2014 and 2015, available from: <http://factfinder2.census.gov>

⁷³ FRBSF, 2014. *Vantage Point: The 12th District Community Indicators Project* (pg. 2), survey conducted in 2013; available from: <http://www.frbsf.org/community-development/publications/vantage-point/2014/march/2013-community-indicators-survey/>

Credit and Community Development Needs

As previously discussed, lending levels to small businesses remain depressed although there are signs of improvement. National surveys suggest that depressed demand, uncertainty about the economy, and issues with credit worthiness may help explain the lower levels of lending to small businesses.⁷⁴ Similar to the Southern California assessment area, there is a considerable variation in the credit needs of small businesses, including microloans, working-capital loans and lines of credit.

There is also a dire need for affordable housing solutions. High housing costs and low rental affordability and availability highlight a need for products and services that support access to affordable housing. Assessment area respondents to the FRBSF's Vantage Point Survey echoed these sentiments, noting that the lack of housing stock and the price of available stock are impediments to low-income individuals looking to rent or buy a home. Information obtained from community contacts within the assessment area suggests that communities are in great need of reasonable home mortgage loans and construction loans to finance affordable housing options, ranging from traditional multifamily units to non-traditional accessory dwelling units and manufactured homes.

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. Lower revenues resulting from decreased government support and difficulty attracting donations, among other factors, have also challenged local non-profits in their efforts to meet the needs of these communities.⁷⁵ 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 areas.

⁷⁴ Wiersch, Anne Marie. Good News and Bad News on Small Business Lending in 2014. January 5, 2015; available from: <https://www.clevelandfed.org/en/Newsroom%20and%20Events/Publications/Community%20Development%20Briefs/Briefs/Good%20News%20and%20Bad%20News%20on%20Small%20Business%20Lending%20in%202014.aspx>.

⁷⁵ UCLA Center for Civil Society. *Stressed and Stretched: The Recession, Poverty, and Human Services Nonprofits in Los Angeles*, p. vii. Available from: <http://civilsociety.ucla.edu/>

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN NORTHERN CALIFORNIA

Lending Test

APB's overall lending test performance is satisfactory in the Northern California assessment area. The bank's lending by business revenue demonstrated a reasonable distribution of lending to small businesses and an adequate responsiveness to small business credit needs for smaller dollar loans. APB's geographic distribution of lending was also reasonable which is discussed below.

Lending Distribution by Geography

Overall, the geographic distribution of small business loans in Northern California is reasonable. As shown in Exhibit 18, the relatively low volume of loans considered in the assessment was reasonably distributed across all geographies. The bank's performance in low-income geographies was consistent with the aggregate market and the concentration of businesses. Although reasonable, the APB did not perform as well in moderate-income geographies.

EXHIBIT 18 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
<i>Northern California Assessment Area 2014</i>								
Bank Lending	3	15.8	1	5.3	12	63.2	3	15.8
Aggregate Lending	8,940	16.2	8,370	15.1	20,138	36.4	17,804	32.2
Business Concentration	17,021	15.8	16,043	14.9	40,708	37.9	33,676	31.3
<i>Northern California Assessment Area 2015</i>								
Bank Lending	3	12.0	1	4.0	15	60.0	6	24.0
Aggregate Lending	9,079	15.0	9,664	15.9	22,975	37.9	18,940	31.2
Business Concentration	18,179	16.0	16,849	14.8	42,863	37.6	36,072	31.7

Lending Distribution by Borrower Income and Business Revenue

The distribution of small business loans by business revenue is reasonable. As shown in Exhibit 19, APB's lending to businesses with gross annual revenues of less than and or equal to \$1 million compared reasonably to the aggregate market. Additionally, the bank's lending was adequately allocated among different loan sizes meeting a credit need for smaller dollar loans.

EXHIBIT 19 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 (%)
2014	19	42.1	89.1	46.3	26.3	21.1	52.6
2015	25	56.0	91.8	49.2	32.0	28.0	40.0

Community Development Test

APB’s performance under the community development test in Northern California is satisfactory. The bank’s community development activities were consistent with its presence and overall activity in this market. APB’s community development loans, investments, and services demonstrated adequate responsiveness to the community development needs within the assessment area.

Community Development Lending

APB originated a total of five community development loans, totaling \$4.9 million, which helped to address a critical community development need for affordable housing in the assessment area. Specifically, the bank extended two loans totaling \$2.6 million which created six affordable housing units in a mixed-use property, and originated three loans totaling \$2.3 million, resulting in five condominium units offered at below market rents. Notably, all of the foregoing affordable housing units are situated in the high cost area of San Francisco.

Community Development Investments and Donations

APB made one investment totaling approximately \$249,000, and six donations in the amount of \$8,600, which specifically impacted the Northern California area. No prior period investments were reported as the bank was previously defined as a small bank under the CRA examination procedures. Notably, the bank made one low-income housing tax credit investment, totaling \$218,043, which resulted in 159 units of affordable housing which impacted the broader regional and statewide areas, including the Northern California assessment area. Investment and donation highlights include:

- One certificate of deposit investment totaling \$249,000 in a minority-owned institution.
- Two donations totaling \$5,600 were made to a local organization that provides support services to low-and moderate-income children.
- Three donations totaling \$2,500 were made to a local high school where a substantial majority of the students are low- and moderate-income children.

Community Development Services

Bank personnel provided approximately 688 hours of community development service during the review period which included the following:

- One employee dedicated 455 hours serving on the board of a nonprofit organization that provides numerous services including mentorship, leadership, and skills development to foster children, inner city and at-risk youth.
- A director contributed 167 hours serving as a board member of a local city agency which provides support to low-to-moderate income individuals.

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.