

# **PUBLIC DISCLOSURE**

**August 21, 2000**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CivicBank of Commerce  
533964  
2101 Webster Street  
Oakland, California 94612**

**Federal Reserve Bank of San Francisco  
101 Market Street  
San Francisco, California 94105**

*Note: 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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## **GENERAL INFORMATION**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **CivicBank of Commerce** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **August 21, 2000**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

## **INSTITUTION**

**INSTITUTION'S CRA RATING:** This institution is rated Satisfactory.

CivicBank of Commerce's CRA performance is satisfactory. During the period between examinations, lending results evidenced an adequate responsiveness to assessment area credit needs. Overall small business and community development lending is adequate, although both the number and dollar volume has declined from previous examination results. The bank's loans are concentrated in the bank's assessment area and evidence a good dispersion throughout the assessment area, particularly low- and moderate-income areas.

The bank has strengthened its responsiveness to community development needs through direct investments and grants. In fact, the overall level is significant relative to the bank's capacity. Moreover, investment activities are more diverse and directly respond to critical needs in the bank's assessment area.

The bank's retail banking delivery system sufficiently accommodates the convenience and needs of its community. Service outlets are reasonably accessible to essentially all portions of the bank's assessment area, including low- and moderate-income geographies. Services provided include an adequate level of community development related activities.

<b>PERFORMANCE LEVELS</b>	<b>CIVICBANK OF COMMERCE</b>		
	<b>PERFORMANCE TESTS</b>		
	<b>Lending Test*</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			
High Satisfactory		X	
Low Satisfactory	X		X
Needs to Improve			
Substantial Noncompliance			

*\*NOTE: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.*

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION**

CivicBank of Commerce, headquartered in Oakland, California, operates as a \$485 million community bank serving Alameda, Contra Costa and Santa Clara Counties in their entirety. Bank offices consist of its headquarters in Oakland with two branches in Alameda County, five branches in Contra Costa County and one branch in Santa Clara County. The bank also operates a loan production office in San Francisco. In February 2000, CivicBank of Commerce merged with East County Bank adding 3 branches and \$79 million in assets in eastern Contra Costa County. The bank defines itself as a full service commercial bank, although its target market is primarily businesses and professional firms.

Based on the bank's March 31, 2000 Consolidated Report of Condition and Income (CALL Report) gross loans and leases totaled \$354 million and accounted for 73 percent of total assets. The portfolio's composition for the period was as follows:

<b>Loan Type</b>	<b>Dollar Amount (000s)</b>	<b>Percent of Total</b>
Commercial/Industrial & Non-Farm Non Residential Real Estate	301,428	85%
Construction & Land Development	18,403	5%
Credit Cards/Other Open-end Consumer Lines of Credit	14,521	4%
1-4 Residential – Other	5,690	2%
1-4 Residential – Revolving	4,570	2%
Leases	3,172	1%
Multifamily	3,003	1%
Consumer Loans	1,519	0%
All Other	1,277	0%
Total (Gross)	353,583	100%

This composition reflects the bank's wholesale focused lending philosophy. Consumer purpose loans are extended only on an accommodation basis.

CivicBank of Commerce ranks 22<sup>nd</sup> with a market share of 0.61 percent of deposits out of 81 banks operating in its assessment area.<sup>1</sup> Deposit and loan growth has fueled an average loan to deposit ratio of 73.91 percent for the eight-quarter period between examinations.

Currently there are no legal impediments or other issues or financial constraints that impede the bank's ability to respond to community credit needs. At its previous Community Reinvestment Act examination conducted as of August 3, 1998, CivicBank of Commerce received a satisfactory performance rating.

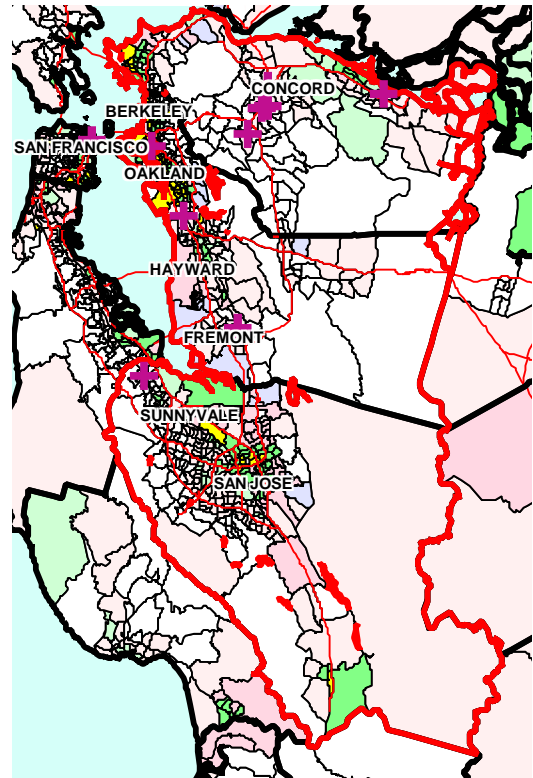
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<sup>1</sup> Federal Deposit Insurance Corporation (FDIC), Summary of Deposits, Offices and Deposits of All FDIC-Insured Institutions with offices located in Alameda, Contra Costa and Santa Clara Counties, June 30, 2000.

## DESCRIPTION OF ASSESSMENT AREA

As illustrated here, CivicBank of Commerce delineates a single assessment area containing the Oakland Metropolitan Statistical Area (MSA), which incorporates Alameda and Contra Costa counties and the San Jose MSA, which consists of Santa Clara County. The estimated January 1999 population of the area was 4.07 million,<sup>2</sup> concentrated in or near the major cities of San Jose, Oakland, and Concord.

The assessment area's 867 census tracts encompass culturally and economically diverse low-, moderate-, middle- and upper-income geographies. The following table outlines selected demographic characteristics for each of the geographic regions within the bank's assessment area:



	<b>Median Home Price<sup>3</sup></b>	<b>Median Family Income<sup>4</sup></b>	<b>Families below Poverty Level<sup>5</sup></b>	<b>Unemployment Rate<sup>6</sup></b>
<b>Oakland MSA (Alameda Cty)</b>	NA	\$67,600	7.0%	3.1%
<b>(Contra Costa Cty)</b>	\$332,750	NA	8.1%	3.3%
<b>San Jose MSA</b>	\$255,000	NA	5.5%	2.9%
	\$438,000	\$87,000	5.0%	2.0%

The robust economic activity in the San Jose MSA, home of Silicon Valley, coupled with the historic housing shortage in San Francisco, has created stress on the existing housing market in the assessment area. Home prices have risen throughout the assessment area but particularly in the San Jose MSA. Median home prices and median incomes in the San Jose MSA are substantially greater than those of the Oakland MSA, yet in neither MSA are the median home prices and median incomes close enough to make home ownership affordable. In response to this disparity, a sophisticated infrastructure of community development organizations exists to facilitate the acquisition, construction, rehabilitation, management and permanent financing of

<sup>2</sup> California Department of Finance, Economic Research, February 2000.

<sup>3</sup> California Association of Realtors® and Transamerica Intellitech MetroScan®, June 2000

<sup>4</sup> US Department of Housing and Urban Development, 2000

<sup>5</sup> US Census Bureau 1990

<sup>6</sup> State of California, Employment Development Department, Labor Market Information Division, Non-Seasonally Adjusted Unemployment Rate for August 2000.

affordable housing developments. CivicBank of Commerce has been building lending relationships with such organizations since the last examination.

Unemployment in both the Oakland MSA and the San Jose MSA has declined since the highs in 1992 and as of August 2000 falls below the national rate of 4.1 percent and well below the State of California's rate of 5.0 percent.<sup>7</sup> The low unemployment rates are attributable to the economic diversity of the bank's assessment area. The services sector is the predominant industry for both MSAs at 30 percent for the Oakland MSA and 34 percent for the San Jose MSA. From there the economic bases manifest themselves in each region's strengths. For example, the trade sector is the second most predominant industry in the Oakland MSA (23 percent) due to the Port of Oakland's shipping dominance in the Bay Area. In contrast, San Jose's second largest employment sector is manufacturing, fueled by semiconductor and other high-tech enterprises.<sup>8</sup> CivicBank of Commerce's product lines catering to professional services, light industry and international trade finance are well suited to area businesses.

The assessment area's 867 census tracts are grouped below by income classification based on 1990 Census data. Using data reported by Dun & Bradstreet for 1999, the distribution of area businesses is comparable to the distribution of census tracts. Small businesses, defined as businesses with gross annual revenues of less than \$1 million comprise 86 percent of assessment area businesses. There were no material differences between the concentrations of small businesses and total businesses.

<b>Assessment Area</b>	<b>Census Tracts</b>		<b>Dun &amp; Bradstreet</b>			
	<b>#</b>	<b>%</b>	<b>Small Business #</b>	<b>Small Business %</b>	<b>Total Business #</b>	<b>Total Business %</b>
Low	75	9%	9,176	9%	11,225	9%
Moderate	156	18%	21,126	20%	24,344	20%
Middle	345	40%	50,603	47%	58,676	47%
Upper	189	22%	26,336	25%	30,006	24%
Unclassified	102	12%	227	0%	336	0%
<b>Total</b>	<b>867</b>	<b>100%</b>	<b>107,468</b>	<b>100%</b>	<b>124,587</b>	<b>100%</b>

Consistent with this demographic data and information supplied by community contacts, affordable housing and small business development represent particular credit needs within the bank's assessment area. Micro lending to small businesses coupled with technical assistance also represent significant opportunities for participation by financial institutions.

<sup>7</sup> State of California, Employment Development Department, Labor Market Information Division, Non-Seasonally Adjusted Unemployment Rate for August 2000.

<sup>8</sup> California Department of Finance, Economic Research, February 2000.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

### **SCOPE OF EXAMINATION**

Examiners applied the lending, service, and investment tests of the large bank assessment methodology in evaluating CivicBank of Commerce's performance under the Community Reinvestment Act. These three tests measure the bank's performance in addressing the identified credit, service and investment needs within its defined assessment area, consistent with the business focus and strategic objectives of the institution. Accordingly, loan products considered under the lending test consisted of small business loans and community development loans. The sample period for loans considered under the lending test was April 1, 1998 through March 31, 2000, and included 613 small business loans totaling \$142 million. Additionally, examiners reviewed 97 letters of credit totaling \$10 million, two community development loans and two letters of credit for community development purposes. The assessment of these loans measured the bank's lending activity within its assessment area, the geographic distribution of loans, loan penetration to business of different sizes, product innovation, and responsiveness to assessment area credit needs. In addition, the lending test measured the level and effectiveness of the bank's qualified community development loans in meeting assessment area credit needs.

The service test considered the accessibility of the bank's delivery systems and the level and responsiveness of its qualified community development services. Similarly, the investment test considered the level and responsiveness of the bank's qualified community development investment and grant activity. Examiners also conducted interviews with members of the bank's community to understand the credit needs, opportunities and local market conditions in context with the bank's performance.

### **LENDING TEST**

CivicBank of Commerce's overall lending performance demonstrated an adequate record of meeting assessment area credit needs. Although small business lending declined during the examination period, the bank's origination activity still reflects a high concentration of loans in its assessment area, and a good distribution throughout the different income geographies. The volume of loans to small businesses and community development lending is adequate.

#### **Assessment Area Concentration**

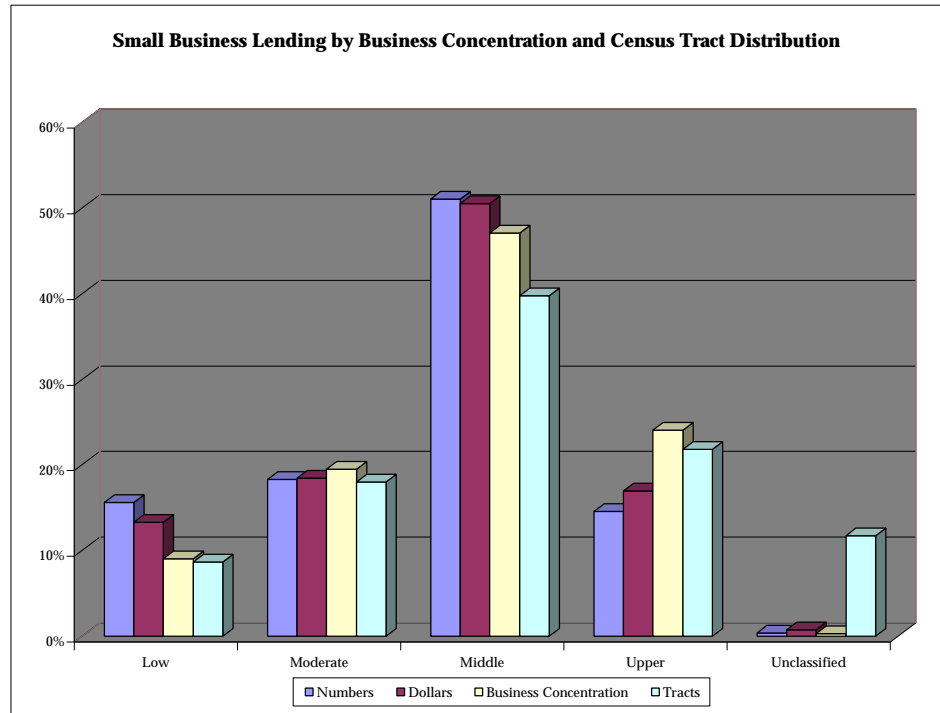
The bank originated a high percentage of loans inside of its defined assessment area. By product type the local concentration was also apparent, particularly with respect to letters of credit (87 percent) and community development loans (100 Percent). At 78 percent, the concentration of small business loans is also considered high, although the incidence of credit outside the bank's assessment area has increased since the previous examination both in number and as a percentage of the bank's total small business lending. Loans outside of the assessment area primarily consist of those extended through the bank's San Francisco loan production office.



## Lending Distribution by Geography

The dispersion of the bank's loans throughout its assessment area is good. In fact, the institution exhibits particular strength in the Oakland MSA due to its established presence in this market. The bank has a smaller presence in the San Jose MSA, which is reasonable given its sole branch and the limited tenure (three years) in this market.

Incidence of the bank's small business loans in different income geographies also reflects a good dispersion. As depicted in the chart the percentage of these loans in low-income geographies exceeds the percentage of these tracts in the assessment area, and is also higher than the concentration of businesses in those tracts. Lending in moderate-income tracts, although not as strong, is comparable to the business concentration and the percentage of



moderate-income census tracts in the market. This profile is not only substantive but reflects a notable improvement from previous examination results. The improvement is attributable to a lending focus on light industrial firms, which have a concentration in the assessment area's moderate-income census tracts.

CivicBank's lending in low-income census tracts also compares favorably to market performance, at 16 percent of the number and 13 percent of the dollar volume of its small business loans. Market data indicate that, in the aggregate, lenders that reported CRA small business loans made 8 percent of their origination volume and 10 percent of their dollar volume in low-income census tracts. For moderate-income tracts, in the aggregate, lenders matched CivicBank of Commerce's 18 percent in number and dollar volume.

CivicBank's letters of credit also showed adequate dispersion in low- and moderate-income census tracts, with 18 percent of letters of credit committed in low-income tracts and 14 percent in moderate-income tracts.

## Lending Distribution by Business Revenue

CivicBank of Commerce's overall lending to small businesses is adequate. As the chart shows 37 percent of the bank's small business loans were to businesses with gross annual revenues of \$1 million or less (small businesses). According to Dun & Bradstreet data, these small enterprises makeup 86 percent of all businesses in the bank's assessment area. Comparatively, this profile falls below the 1998 CRA lending data where 47 percent of the aggregate loans in the market were to businesses with gross annual revenues of \$1 million or less. On a dollar basis, 30 percent of the bank's small business loans went to enterprises with revenues of \$1 million or less, also ranking below the 38 percent for the aggregate market.

While the bank's small business lending profile falls below market indicators, the type of lending extended is substantive and directly responds to articulated needs of the small business community. For example, interviews with contacts in the bank's community disclosed that the primary credit need among smaller businesses is loans for \$100,000 or less. The following chart shows that 51 percent of the bank's small business loans were in amounts less than or equal to \$100,000. Moreover, 45 percent of these smaller credit facilitates went to businesses with revenues of \$1 million or less.

Small Business Originations & Purchases	Loan Amount			Total
	\$100,000	>\$100,000 to \$250,000	>\$250,000 to \$1,000,000	
<b>Number of Small Business Loans</b>	<b>244</b>	<b>108</b>	<b>128</b>	<b>480</b>
Number to Businesses With Gross Annual Revenues [ \$ 1 Million	110	26	40	176
Percentage of Loans to Businesses With Gross Annual Revenues [ \$ 1 Million	45%	24%	31%	37%
<b>Dollar Volume of Small Business Loans ('000)</b>	<b>11,210</b>	<b>20,377</b>	<b>73,282</b>	<b>104,870</b>
Dollar Amount ('000) to Businesses With Gross Annual Revenues [ \$ 1 Million	5,033	4,768	21,944	31,745
Percentage of Loans to Businesses With Gross Annual Revenues [ \$ 1 Million	45%	23%	30%	30%

Overall, the type of financing provided has sufficiently offset the declining volume of small business loans granted. The institution's expanded capacity and concentration of small business in the market, however, suggest opportunities for loan growth.

## Community Development Lending

Community development loans funded by CivicBank of Commerce during the review period evidence some decline from the prior examination. Nonetheless, the bank continues to exhibit an adequate level of participation in qualified community development initiatives, and in fact established new lending relationships in areas of particular need. During the review period, the bank originated two qualified community development loans totaling \$5.3 million. One of these

loans was to an organization in Oakland, which develops affordable housing, provides community services for low- and moderate-income individuals and promotes economic development through a micro-loan fund. The other facility was extended to finance the development of affordable housing in West Oakland. In addition to new credit extensions, the bank issued two letters of credit totaling over \$500,000 to an organization to facilitate the rehabilitation of affordable housing in Richmond. The bank also maintained \$1 million commitment to the California Community Reinvestment Corporation, to provide permanent financing for multi-family affordable housing developments throughout California.

### **Innovative or Flexible Lending Practices**

CivicBank of Commerce makes little use of innovative or flexible lending practices to serve assessment area credit needs. As an alternative, the bank as a preferred SBA lender offers SBA-guaranteed loans to accommodate businesses that need some type of credit enhancement to attain financing.

### **INVESTMENT TEST**

CivicBank of Commerce has made a significant amount of qualified community development investments and grants, and has strengthened its support of community development activities since the previous examination. The bank's qualified community development investments and grants, totaled \$2.9 million and consisted of \$2.8 million in investments and \$77,525 in grants. In the aggregate, these qualified investments represented approximately 6 percent of the bank's equity capital and 3 percent of total bank investments. While the bank's total investments have grown 40 percent during the examination period, its community development investments have more than doubled. Prior examination activity was limited to \$1.2 million, and represented 3 percent of equity capital and 2 percent of total investments<sup>9</sup>. New investments primarily consist of the following:

- bonds, both to revitalize low-income areas and to provide capital to improve services to low- and moderate-income communities and families.
- investments in a mutual fund comprised of mortgage-backed securities for multifamily housing, restricted to tenants earning 60 percent or less of area median income.
- a certificate of deposit in a local community development financial institution and
- increased charitable contributions to numerous organizations that provide community development services to low- and moderate-income individuals and communities, rehabilitate affordable housing for low- and moderate-income families and support economic development, including a micro-loan fund for very small businesses.

The bank's investment activity during the period between examinations supported community development initiatives that respond to the needs identified by members of the bank's community interviewed during the examination. This increased participation and active pursuit of qualified investments and contributions, exhibits a good responsiveness to credit and community development needs relative to its capacity.

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<sup>9</sup> Includes Securities Held to Maturity and Available for Sale

## **SERVICE TEST**

Consistent with the bank's commercial lending focus, CivicBank of Commerce's services coupled with its alternative delivery systems enable reasonable access throughout essentially all portions of the bank's assessment area. The bank also provides qualified community development services in its market. The nature and extent of services provided is adequate given the bank's capacity and the community development needs in the assessment area.

### **Retail Banking Services**

CivicBank of Commerce's delivery system enables convenient access to bank products and services throughout the assessment area. The distribution of the bank's branches is as follows:

<b>BRANCHES</b>	<b>Tracts</b>		<b>Branches</b>	
	#	%	#	%
Low	75	9%	1	11%
Moderate	156	18%	1	11%
Middle	345	40%	7	78%
Upper	189	22%	0	0%
Unclassified	102	12%	0	0%
Total	867	100%	9	100%

The bank's primary delivery system is its branch network. As the geographic distribution of the bank's loans indicates, service delivery processes provide sufficient access throughout the assessment area, including low and moderate-income areas.

### **Community Development Services**

CivicBank of Commerce provides an adequate level of qualified community development services. Nine bank officers and other personnel routinely provide financial technical assistance to nine organizations that provide services to low- and moderate-income individuals and communities, and affordable housing. The bank has begun to expand its involvement in qualified community development service activities by providing more assistance to organizations specializing in serving very small businesses and economic development. Recent new activities include a bank officer serving as the president of the Bay Area Association of Government Guaranteed Lenders as well as serving on the loan committee of the Northern California Small Business Financial Development Corporation. In the context of the bank's capacity to provide technical assistance relative to the numerous organizations in need, the bank's performance is adequate.

## **COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS**

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. The bank's established policies and procedures ensure compliance with fair lending laws and regulations. The fair lending review performed concurrently with this examination did not evidence any type of discriminatory or discouraging lending practices.

## **GLOSSARY OF FREQUENTLY USED TERMS**

**Area Median Income  
(Median Income)**

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

**Assessment Area**

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

**Community Development**

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

**Community Development  
Loan**

A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:

- (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and
- (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

<b>Community Development Service</b>	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
<b>Consumer Loans</b>	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
<b>Families</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
<b>Geographies</b>	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
<b>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<b>HUD Adjusted Median Income</b>	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
<b>Income Level</b>	Includes low-income, moderate-income, middle-income and upper-income.
<b>Low-Income</b>	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
<b>Median Income</b>	See Area Median Income and HUD Adjusted Median Income
<b>Metropolitan Statistical Area (MSA)</b>	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.

<b>Middle-Income</b>	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
<b>Moderate-Income</b>	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
<b>Qualified Investment</b>	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
<b>Real Estate Mortgage Loan</b>	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.
<b>Small Bank</b>	A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.
<b>Small Business</b>	Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.
<b>Small Business Loan</b>	Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."
<b>Upper-Income</b>	An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.