

PUBLIC DISCLOSURE

January 19, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**EAST COUNTY BANK
54469
1141 A Street
Antioch, California 94509**

**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 **East County Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **January 19, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

Institution's CRA Rating: This institution is rated satisfactory.

Basis for Rating

East County Bank's overall satisfactory performance is based its record of adequately meeting the credit needs in the assessment area, consistent with its size, resources, and financial condition. The bank's loan-to-deposit ratio, the concentration of lending within the assessment area, and the geographic distribution of loans are reasonable and consistent with its resources and capabilities. Of particular note, however, is the bank's exemplary record of lending to businesses of different sizes, particularly to small businesses. The bank lending performance demonstrates its commitment and efforts to meet the credit needs of small businesses in its assessment area.

DESCRIPTION OF INSTITUTION

East County Bank is headquartered in Antioch, California. In addition to its main office in Antioch, the bank has a full-service branch in Concord and a loan production office in Sacramento. The main office and branch are both located in the northeast section of Contra Costa County. The bank defines itself as a community bank that readily responds with more attention and better service to local businesses. Its primary focus is to serve the needs of small- and medium-sized businesses by offering a full line of commercial loan products, including loans guaranteed by the Small Business Administration (SBA). It also offers consumer-purpose credit, although mainly as an accommodation for its business customers.

As of the September 30, 1998 Consolidated Reports of Condition and Income (Call Report), the bank had \$77.7 million in total assets, of which \$45.0 million, or 58 percent, were loans. Consistent with its stated business strategy, the majority (84 percent) of the bank's lending is to business entities, primarily in the form of term loans and lines of credit to local businesses. The bank also has extended consumer-purpose transactions, principally in the form of credit cards, automobile loans and loans secured by equity in the borrower's residence.

The bank's performance was rated satisfactory at its previous CRA examination conducted in March 1995, by the Office of the Comptroller of the Currency. The bank operates in a competitive banking environment where there are several larger financial institutions in its assessment area that offer similar products and services. The bank does not currently operate under any legal or financial impediments that would limit its ability to address the credit needs of small businesses in its assessment area, consistent with its size, financial capacity, and local economic conditions.

DESCRIPTION OF ASSESSMENT AREA

East County Bank has defined the Oakland Metropolitan Statistical Area (MSA) as its assessment area. The MSA consists of Alameda and Contra Costa counties in their entirety. Of the total 482 census tracts in the assessment area, 17 percent are low-, 20 percent are moderate-, 39 percent are middle-, and 25 percent are upper-income. U.S. Census Bureau statistics show that in 1996, the total population in the two counties was 2.2 million, representing a 6.2 percent increase over the 1990 figures. There are 526,565 families in the assessment area of which 20 percent are low-income, 17 percent are moderate-, 24 percent are middle-, and 39 percent are upper-income. Seven percent of the families are living below the poverty line, and the median family income in 1997 was \$60,100.

The MSA counties continue to enjoy a healthy economy, with a 3.4 percent unemployment rate in November 1998, compared to the overall state rate of 5.6 percent. The total number of jobs in these two counties was estimated to be 998,200 in November 1998, with the largest gains occurring in the retail trade and services industries.¹ The Bay Area region, generally understood to consist of the nine counties of San Francisco, Alameda, Contra Costa, Marin,

¹State of California Employment Development Department, Labor Market Information Division.

Napa, Solano, Sonoma, Santa Clara, and San Mateo, continues to be attractive to businesses and investors because of its entrepreneurial and well-educated workforce. In addition to nurturing new and relocated businesses, the Bay Area, due to its strategic location on the West Coast, has been a leader in exports, particularly to Pacific Rim countries.

Several cities in Alameda and Contra Costa counties, because of their relatively affordable home prices, serve as bedroom communities, with many of the residents commuting to employment and business centers such as San Francisco, Sacramento, and the Silicon Valley. In recent years, Contra Costa County has experienced a significant increase in the construction of new homes as housing prices have soared in the other counties. In general, home prices in Alameda and Contra Costa counties are below those of other Bay Area counties. In December 1998, the median price of homes was \$196,500 in Contra Costa County and \$230,000 in Alameda County, as compared to \$325,000 in San Francisco, \$366,000 in Marin, and \$338,341 in San Mateo County.²

According to Dun and Bradstreet (a firm that provides business and credit data), there are about 19,000 businesses in the bank's assessment area. Of those, 86 percent are small businesses (those with annual gross revenues below \$1 million), suggesting a high level of lending opportunities to that sector in the assessment area. In particular, community contacts who are involved in county redevelopment stated that there is a need for small business lending, particularly in small-dollar amounts, and for purposes that include working capital and business expansion.

² California Association of Realtors.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

East County Bank's performance under the Community Reinvestment Act was evaluated based upon four of the five performance criteria for small banks. These include loan volume in comparison to deposits (Loan-to-Deposit Ratio), lending inside and outside the assessment area (Lending in Assessment Area), the distribution of lending to businesses of different sizes (Lending by Business Revenue), and lending dispersion throughout the census tracts or geographies within the assessment area (Geographic Distribution of Loans). The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints were received since the bank's previous CRA examination.

The bank's CRA performance was evaluated using a total of 239 small business loans that were extended from January 1997 through September 1998. The business loans were first analyzed to determine the volume of lending within the bank's assessment area. Only those 220 loans that were extended inside the bank's assessment area were then used to evaluate the geographic distribution of lending. To analyze the bank's lending performance by business revenue, revenue data was collected for a sample of 112 loans from the 220 extended inside the assessment area. By utilizing only those loans extended inside of the bank's assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

LOAN-TO-DEPOSIT RATIO

The average loan-to-deposit ratio is used as a quick test to determine the bank's level of lending activity in comparison to its deposits. This review is accomplished by measuring the bank's net loans against its total deposits over time with the result being evaluated within the bank's performance context.

East County Bank's average loan-to-deposit ratio is 64.7 percent for the four quarters October 1997 through September 1998. During this same time period, peer banks that operate in the same geographic area have average ratios that compare favorably with bank's ratio and range from 63.5 percent to 80.3 percent. The bank's loan-to-deposit ratio demonstrates its willingness to extend credit and meets standards for a satisfactory performance.

LENDING IN ASSESSMENT AREA

East County Bank's distribution of loans inside and outside of its assessment area meets standards for a satisfactory performance. Of the 239 loans reviewed, a significant majority (92 percent of the total number and 88 percent of the total dollar volume) was made within the bank's assessment area. Many of the loans that were made outside the bank's assessment area are SBA loans that were originated by its Sacramento loan production office. The bank's record of lending within its assessment area is reasonable when viewed against the assessment area's large geographical size and the bank's two branches located in the northeast section of Contra Costa county.

LENDING BY BUSINESS REVENUE

The bank's distribution of loans to businesses of different sizes exceeds standards for a satisfactory performance. Of the 112 loans for which business revenue information was collected, a significant majority (82 or 73 percent) was extended to businesses with gross annual revenues of \$1 million or less. Of these 82 loans, 68 (82 percent) were made in amounts less than \$100,000 and 31 (46 percent) were made in amounts less than \$25,000.

Community contacts stated that small businesses in the community need loans in small dollar amounts, for purposes that include additional working capital and business expansion. By extending a majority of its small business loans in small dollar amounts and for purposes that include those articulated by community contacts, the bank is affirmatively addressing identified community credit needs. These factors, taken together, lead to the conclusion that the bank's lending to small businesses exceeds standards for a satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS

The following table depicts the geographic dispersion of the bank's small business loans compared to the distribution of small businesses, census tracts, and other lender activity in the assessment area.

	Census Tract Distribution by Income Level			
	Low 17%	Moderate 20%	Middle 39%	Upper 25%
Bank Data – Loans to Small Business				
Total number of loans	6%	12%	69%	13%
Total amount of loans	9%	10%	69%	13%
Aggregate Market Data³				
Total number of loans	11%	13%	43%	32%
Total amount of loans	14%	11%	41%	33%
Dun & Bradstreet Data				
Number of small businesses	12%	17%	44%	27%

As demonstrated in the above table, the bank's lending is predominately in middle-income census tracts, with lower lending levels in low- and moderate-income tracts. The census tracts surrounding the bank's two branches are mainly middle-income, with eight moderate-income tracts and only one low-income tract in close proximity to the branches. An analysis of the bank's lending patterns demonstrates that lending is concentrated around those branches, with lending activity in all income-levels of census tracts. Lending levels decrease as the geographical distance to the branch increases, regardless of the tract's income level or concentration of businesses. This dispersion is considered reasonable based on the bank's limited ability to service geographies that are of considerable distance to its branches.

³ Aggregate Market Data is the total 1997 small business lending activity in the bank's assessment area for those large financial institutions required by the CRA regulation to collect and report lending data.

RESPONSE TO COMPLAINTS

The bank has not received any complaints relating to its CRA performance since its previous examination. Therefore, the bank's performance under this criterion could not be evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were noted during this examination that would indicate that East County Bank engages in any type of discrimination or discouragement in its lending activities.