

PUBLIC DISCLOSURE

April 16, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Heritage Bank of Commerce
RSSD # 2209553**

**150 Almaden Boulevard
San Jose, California 95113**

**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 Community Reinvestment Act (CRA) Rating

Heritage Bank of Commerce is rated “SATISFACTORY”

The following table shows the performance level of Heritage Bank of Commerce with respect to the lending, investment, and service tests.

PERFORMANCE LEVELS	PERFORMANCE TESTS		
	LENDING TEST*	INVESTMENT TEST	SERVICE TEST
OUTSTANDING			
HIGH SATISFACTORY	X	X	X
LOW SATISFACTORY			
NEEDS TO IMPROVE			
SUBSTANTIAL NONCOMPLIANCE			

* The lending test is weighted more heavily than the investment and service tests in determining the overall rating.

The major factors supporting the institution’s rating include:

- Good levels of lending that were responsive to the credit needs of the bank’s assessment areas.
- A strong geographic distribution of small business loans.
- Good penetration of small business loans among businesses of different revenue sizes.
- A relatively high level of community development activities that were responsive to the needs for affordable housing and community services to low- and moderate-income individuals.

INSTITUTION

Description of Institution

Heritage Bank of Commerce (HBC) is headquartered in San Jose, California with total assets of \$2.8 billion as of December 31, 2017. HBC is a wholly-owned subsidiary of Heritage Commerce Corporation. HBC primarily serves as a commercial lender to the greater San Francisco Bay Area with a focus on small-and middle-market businesses. Since the previous CRA examination conducted as of July 13, 2015, HBC acquired Tri Valley Bank with assets of \$140 million on April 7, 2018, immediately prior to the start of this evaluation. HBC currently operates 13 full service branches in the following cities: Danville, Fremont, Gilroy, Hollister, Livermore, Los Gatos, Los Altos, Morgan Hill, Pleasanton, San Jose, San Ramon, Sunnyvale, and Walnut Creek. HBC acquired the branches in Livermore and San Ramon as a result of the Tri Valley Bank acquisition.

HBC offers a variety of business and personal banking products. The bank’s commercial loan offerings include: Small Business Administration (SBA) loans, commercial real estate loans, commercial construction loans, equipment loans, term financing, and letters of credit. The bank also offers personal and home equity lines of credit. In addition, HBC also provides a number of deposit products such as checking, money market, and savings accounts, certificates of deposit, and other products and services, including cash management services, online banking, and bill pay.

Exhibit 1 below presents the bank’s loan portfolio, as stated in the December 31, 2017 Consolidated Reports of Condition and Income, and illustrates the bank’s commercial focus.

EXHIBIT 1		
LOANS AND LEASES AS OF DECEMBER 31, 2017		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	1,264,272	79.7
Secured by 1-4 Family Residential Real Estate	140,343	8.8
Construction & Land Development	103,569	6.5
Multi-Family Residential Real Estate	54,783	3.5
Consumer Loans & Credit Cards	12,396	0.8
Farm Land & Agriculture	10,723	0.7
Total (Gross)	1,586,086	100.0

HBC’s assessment areas remain unchanged the since the previous examination. The bank’s two assessment areas are defined below:

- Santa Clara-San Benito, which consists of Santa Clara County and San Benito County in their entirety and is also known as the San Jose-Sunnyvale-Santa Clara Metropolitan Statistical Area (MSA); and
- Alameda-Contra Costa, which consists of Alameda County and Contra Costa County in their entirety and is also known as the Oakland-Hayward-Berkeley Metropolitan Division (MD).

During the review period, there were no legal or financial impediments constraining the bank's ability to meet the credit needs of its communities consistent with its business strategy, financial capacity, size, and local economic conditions. HBC received an overall satisfactory rating at its previous CRA evaluation conducted as of July 13, 2015, under the *Interagency Large Institution CRA Examination Procedures*.

Scope of Examination

HBC's performance was evaluated in accordance with the *Interagency Large Institution CRA Examination Procedures*. As such, performance was assessed under the lending, investment, and service tests. The evaluation period for the lending test was January 1, 2015 through December 31, 2017. The evaluation period for community development loans, qualified investments, and community development services was July 14, 2015 through April 16, 2018.

The lending test is weighted more heavily than either the investment or service tests. The lending test evaluation is based on the following loan products: small business, small farm, home mortgage loans, and community development loans. The investment test is based on a review of qualified community development investments made during the review period or during a prior period that remained on the bank's books. The service test evaluation is based on a review of retail banking services and qualified community development services performed during the review period.

Both assessment areas received full-scope reviews. The Santa Clara-San Benito assessment area performance was weighted slightly greater due to the larger branch footprint and slightly larger loan volume relative to the Alameda Contra-Costa assessment area.

A performance context was developed to identify the opportunities, credit needs, and small business lending activity within each assessment area. Small business loans were weighted more heavily in the performance evaluation based on the volume of lending. Although small farm and home mortgage loans were considered in the analysis, volumes were too small to draw meaningful conclusions. Nevertheless, all lending activities are presented within the core tables presented in Appendix B.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

Lending Test

HBC's overall performance under the lending test is high satisfactory. The level of lending reflects good responsiveness to the credit needs of the communities the bank serves and an adequate percentage of loans were made in the bank's assessment areas. The geographic distribution of loans reflects excellent penetration of geographies of all income levels, with stronger performance in the more heavily weighted Santa Clara-San Benito assessment area. The distribution of loans among businesses of different sizes is good, reflecting the bank's ability to serve the credit needs of small businesses. The bank also made a relatively high level of community development loans that were responsive to the community development needs within the bank's assessment areas. Moreover, HBC made limited use of flexible lending practices in serving the credit needs of its market area.

LENDING ACTIVITY

HBC's lending levels demonstrated good responsiveness to the credit needs of its assessment areas. Loan volumes within the bank's assessment areas reasonably compare with the bank's deposit share in each of its markets. Exhibit 2 below presents the bank's lending activity by product category. The tables in Appendix B provide additional information regarding lending activity within each assessment area.

EXHIBIT 2 SUMMARY OF LENDING ACTIVITY				
Loan Type	#	%	\$ ('000s)	%
Small Business	2,758	96.3	680,059	87.0
Small Farm	3	0.1	700	0.1
Total Business Related	2,761	96.4	680,759	87.1
HMDA Home Purchase	34	1.2	32,757	4.2
HMDA Home Improvement	6	0.2	10,067	1.3
HMDA Refinance	49	1.7	44,423	5.7
HMDA Multifamily	14	0.5	13,399	1.7
Total HMDA Related	103	3.6	100,646	12.9
Total Loans	2,864	100.0	781,405	100.0

Note: Affiliate loans include only loans originated or purchased within the bank's assessment areas.

ASSESSMENT AREA CONCENTRATION

An adequate percentage of loans by number and dollar volume were made within the bank’s assessment areas. Exhibit 3 below shows the number and dollar volume of loans extended within HBC’s assessment areas during the review period. The tables in Appendix B provide additional information on the lending volumes of each assessment area.

EXHIBIT 3 LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREAS								
Loan Type	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Business	2,189	79.4	553,351	81.4	569	20.6	126,708	18.6
Small Farm	1	33.3	200	28.6	2	66.7	500	71.4
Total Business Related	2,190	79.3	553,551	81.3	571	20.7	127,208	18.7
HMDA Home Purchase	17	50.0	17,581	53.7	17	50.0	15,176	46.3
HMDA Home Improvement	4	66.7	5,465	54.3	2	33.3	4,602	45.7
HMDA Refinance	19	38.8	18,472	41.6	30	61.2	25,951	58.4
HMDA Multifamily	9	64.3	5,999	44.8	5	35.7	7,400	55.2
Total HMDA Related	49	47.6	47,517	47.2	54	52.4	53,129	52.8
Total Loans	2,239	78.2	601,068	76.9	625	21.8	180,337	23.1

Note: Affiliate loans not included.

GEOGRAPHIC AND BORROWER DISTRIBUTION

HBC’s geographic distribution of small business loans reflects generally strong penetration among census tracts of different income levels. The bank’s performance exceeded the performance of aggregate lenders operating in the Santa Clara-San Benito assessment area and was generally consistent with the performance of aggregate lenders operating within the Alameda-Contra Costa assessment area. This performance is illustrated in Tables 2 through 10 and discussed further within the respective assessment area analyses.

The distribution of small business loans across businesses of different sizes was good. The bank’s performance was generally consistent with the performance of aggregate lenders operating in the bank’s assessment areas during the review period. In addition, a sizable percentage of loans were made in amounts less than \$100,000, with a majority of loans made in amounts less than \$250,000, helping to address an articulated need for smaller dollar loans. This performance was enhanced by the purchase of a small business loan pool from a non-profit organization that provided underserved small businesses with access to credit.

COMMUNITY DEVELOPMENT LENDING

HBC originated a relatively high level of community development loans that were responsive to the credit needs of the bank’s assessment areas. The bank extended 89 community development loans totaling more than \$79.3 million that benefitted the bank’s assessment areas, including eight loans

totaling \$14.4 million benefitting a broader statewide or regional area including the bank's market area. These loans primarily promoted economic development. Listed below are examples of loans benefitting either a broader statewide or regional area.

- A \$4.0 million line of credit extended to a Community Development Financial Institution providing microloans to small businesses that are unable to obtain loans from traditional financial institutions. The median size of the loan is \$21,000 and these loans create an average of 2.9 jobs.
- Seven SBA 504 loans, totaling \$10.2 million, that helped businesses expand operations and retain 19 jobs.

Investment Test

HBC's performance under the investment test is high satisfactory. The bank made a significant level of qualified community development investments, donations, and grants that demonstrated good responsiveness to the community development needs of the bank's assessment areas. These investments were primarily in the form of mortgage-backed securities secured by mortgage loans made to low- and moderate-income borrowers. A summary of the bank's investment activities is presented in Table 13 and individual activities are discussed further in the respective assessment area analyses.

As shown in Table 13, the bank made 187 qualified community development investments, grants, and donations totaling \$35.9 million. This total includes \$10.2 million in prior period investments on the bank's books at the end of the review period and \$25.8 million in current period investments. In addition, the bank has one remaining unfunded commitment in the amount of \$289,539. Among the current period investments, the bank made 9 investments totaling \$22.1 million that benefitted a broader statewide or regional area, including the bank's assessment areas.

Investments that benefitted broader statewide or regional area include the following:

- Seven mortgage-backed securities totaling \$20.3 million secured by 49 mortgages extended to low- and moderate-income borrowers in the broader regional area including Santa Clara, San Benito, Alameda, and Contra Costa counties.
- A \$1.5 million investment in an affordable housing loan fund benefitting all counties within the bank's assessment areas.
- A total of \$262,859 in marked-up interest earnings for Interest on Lawyers Trust Accounts. For these accounts, interest is earned at a higher interest rate relative to other business accounts. The earnings are then used to help ensure low- and moderate-income individuals have access to legal services.

Service Test

HBC's performance under the service test is high satisfactory. Retail banking systems are reasonably accessible within the bank's assessment areas. Branch hours and services do not vary in a way that negatively impacts accessibility to low- and moderate-income individuals or geographies. In addition, HBC employees provided a relatively high level of qualified community development services within both assessment areas.

RETAIL BANKING SERVICES

HBC's delivery systems are reasonably accessible to all geographies and individuals of different income levels within the bank's assessment areas. The bank operates 13 full service branches, one of which is located in a low-income census tract, along with two branches in moderate-income census tracts. The bank offers various products and services that are available at all branches. In addition, the institution offers alternative delivery channels that enhance accessibility such as mobile banking, internet banking, and remote deposit capture to provide customers with access to banking services after normal business hours. The bank also provides automated teller machines (ATMs) at certain branches. However, to limit the impact to customers who do not have an ATM at their preferred branch, HBC waives 10 ATM fees assessed by another financial institution per statement cycle, not to exceed \$20.

COMMUNITY DEVELOPMENT SERVICES

Bank employees provided a relatively high level of community development services that were responsive to the community development needs in its assessment areas. During the review period, HBC employees provided over 2,700 community development service hours to over 100 organizations. These organizations promote affordable housing, provide community services to low- and moderate-income individuals, and give technical assistance to small businesses.

Fair Lending or Other Illegal Practices Review

Concurrent with this CRA evaluation, a review of the bank's compliance with consumer protection laws and regulations was conducted. No violations of the substantive provisions of anti-discrimination, fair lending, or other illegal credit practice rules, laws or regulations were identified.

FULL-SCOPE ASSESSMENT AREA CONCLUSIONS

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

Santa Clara-San Benito Assessment Area

DESCRIPTION OF OPERATIONS IN SANTA CLARA-SAN BENITO

The Santa Clara-San Benito assessment area consists of Santa Clara County and San Benito County in their entireties. Santa Clara County and San Benito County make up the San Jose-Sunnyvale-Santa Clara MSA. Santa Clara County is located at the southern end of the San Francisco Bay and is home to Santa Clara Valley which is also known as Silicon Valley. San Benito County borders Santa Clara County to the south. With a population of more than 1.9 million people, Santa Clara is the most populous county in the San Francisco Bay Area and in Northern California, and San Benito County has a population of approximately 60,000 people.¹

As of June 30, 2017, the Santa Clara-San Benito assessment area had 45 Federal Deposit Insurance Corporation-insured commercial institutions operating 364 offices. HBC operated seven branches in the area, which had total deposits of \$1.7 billion, representing 1.3 percent of the market.²

Exhibit 4 on the following page presents key demographic and business information used to help develop a performance context for the assessment area.

¹ U.S. Census Bureau, 2017 Population Estimates, Santa Clara and San Benito Counties; available from: <http://quickfacts.census.gov/qfd/index.html>.

² Federal Deposit Insurance Corporation, Deposit Market Share Report, June 30, 2017; available from: <https://www5.fdic.gov/sod/sodMarketRpt.asp?barItem=2>.

EXHIBIT 4 ASSESSMENT AREA DEMOGRAPHICS SANTA CLARA-SAN BENITO 2017 2010 U.S. CENSUS AND 2017 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	35	9.1	36,327	7.9	7,192	19.8	111,143	24.1
Moderate-income	83	21.7	90,512	19.7	9,599	10.6	72,280	15.7
Middle-income	140	36.6	169,807	36.9	8,414	5.0	85,573	18.6
Upper-income	124	32.4	163,795	35.6	4,746	2.9	191,459	41.6
Tract not reported	1	0.3	14	0.0	4	28.6	0	0.0
Total AA	383	100.0	460,455	100.0	29,955	6.5	460,455	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract Income						
		Owner-Occupied			Renter-occupied		Vacant	
		#	%	%	#	%	#	%
Low-income	52,395	16,245	4.5	31.0	34,330	65.5	1,820	3.5
Moderate-income	133,963	59,900	16.5	44.7	68,970	51.5	5,093	3.8
Middle-income	250,460	133,959	36.8	53.5	106,818	42.6	9,683	3.9
Upper-income	227,325	153,510	42.2	67.5	64,849	28.5	8,966	3.9
Tract not reported	85	0	0.0	0.0	80	94.1	5	5.9
Total AA	664,228	363,614	100.0	54.7	275,047	41.4	25,567	3.8
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	5,454	5.8	4,936	5.8	495	5.8	23	7.0
Moderate-income	17,361	18.5	15,093	17.8	2,209	25.7	59	18.0
Middle-income	33,792	36.0	30,420	35.8	3,272	38.0	100	30.6
Upper-income	37,119	39.6	34,354	40.5	2,620	30.5	145	44.3
Tract not reported	71	0.1	65	0.1	6	0.1	0	0.0
Total AA	93,797	100.0	84,868	100.0	8,602	100.0	327	100.0
Percentage of Total Businesses		90.5		9.2		0.3		
Income Categories	Total Farm Entities by Tract	Farms by Tract Income & Revenue Size						
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	16	2.6	14	2.5	2	4.8	0	0.0
Moderate-income	171	28.0	148	26.0	23	54.8	0	0.0
Middle-income	220	36.0	212	37.3	8	19.0	0	0.0
Upper-income	204	33.4	195	34.3	9	21.4	0	0.0
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0
Total AA	611	100.0	569	100.0	42	100.0	0	0.0
Percentage of Total Farms		93.1		6.9		0.0		
2017 Median Family Income ³			Dec 2017 Median Housing Value ⁴					
Santa Clara County			\$109,884		Santa Clara County		\$1,300,000	
San Benito County			\$71,124		San Benito County		\$537,000	
2017 HUD Adjusted Median Family Income ⁵			2017 Unemployment Rate ⁶					
Santa Clara County			\$113,300		Santa Clara County		3.2%	
San Benito County			\$73,400		San Benito County		5.8%	

³ U.S. Department of Housing and Urban Development, Median Family Income Estimate; available from: <http://www.huduser.org/portal/datasets/il/il13/index.html>.

⁴ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <https://www.car.org/en/marketdata/data/housingdata>.

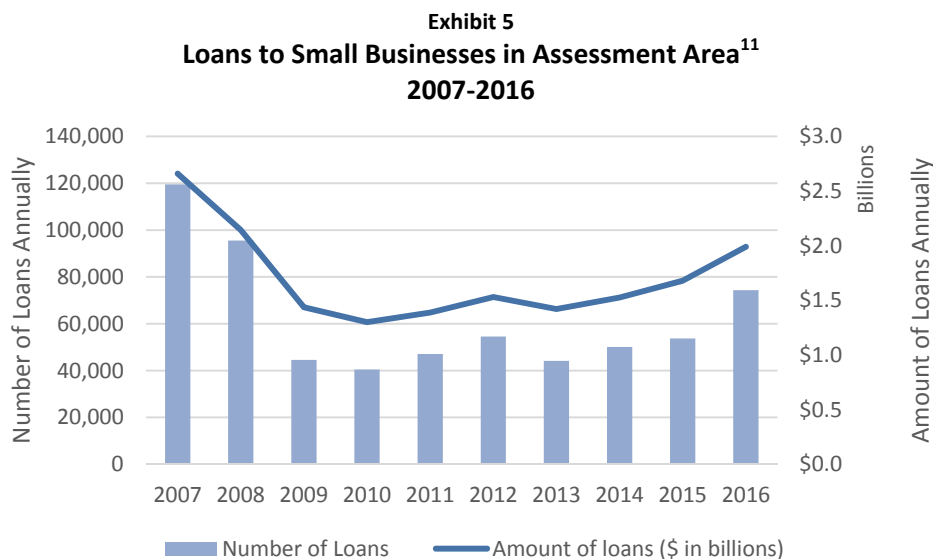
⁵ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il13/index.html>.

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

Economic Conditions

During the review period, the assessment area’s economy expanded and continued to grow at a rapid rate due to the high technology industry. The assessment area economy has grown past full employment and competition for technology workers has pushed personal income 7.8 percent above its mark one year ago making it the highest in California and second highest among all of the nation’s metro areas and divisions.⁷ The assessment area’s highly skilled workers allow it to access substantial venture capital, and tech-centered higher education institutions provide a pipeline of workers.⁸ The top three employers in the assessment area are all tech companies, with the top employer being Google followed by Apple and Cisco Systems.⁹ While the booming technology industry has enabled the San Jose-Sunnyvale-Santa Clara MSA to become one of the most prosperous metro areas in the nation, it has also created dislocations along the way. Due to high costs associated with operating a business and living in the area, many businesses and residents are leaving, causing a shortage of skilled workers and population decreases. In 2016, population growth fell to 0.5 percent, the slowest rate since the Great Recession.¹⁰ The assessment area’s talented workforce, ability to attract capital, and legacy of entrepreneurship continues to extend the technology boom, but high costs are stifling housing demand and pushing businesses and residents out of the region.

Economic growth in the assessment area can also be seen in small business lending trends. A review of small business loan data reported by banks subject to the CRA shows that small business lending levels are improving, but remain below pre-recession levels. As depicted in Exhibit 5, from 2015 to 2016, the number of loans to small businesses in the assessment area increased from 53,709 to 74,347, and the amount increased from \$1.6 billion to \$1.9 billion. Lending to small businesses plays a critical role in the economy given that small businesses represented 90.5 percent of all businesses in the assessment area as depicted in Exhibit 4.



⁷ Moody’s Analytics, Précis Report, San Jose-Sunnyvale-Santa Clara, April 2017.

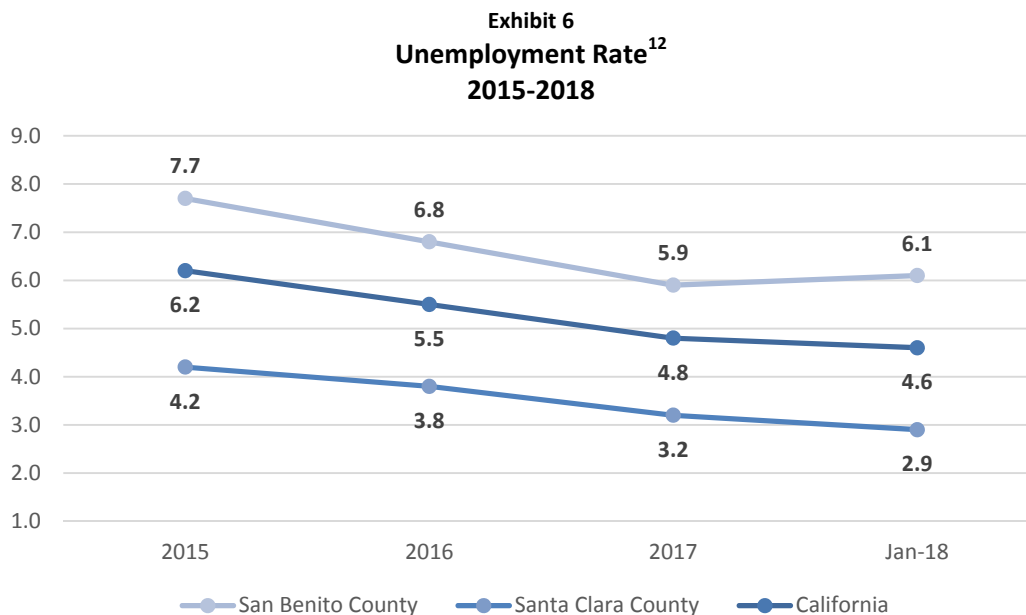
⁸ Ibid.

⁹ Ibid.

¹⁰ Ibid.

¹¹ Aggregate CRA Small Business data reports available from: <http://www.ffiec.gov/craadweb/national.aspx>.

As depicted in Exhibit 6, the unemployment rate in Santa Clara has consistently been lower than the statewide rate while the unemployment rate in San Benito is higher than the statewide rate. San Benito has one of the highest rates of workers who commute to other counties for work, and most of these individuals are employed in Santa Clara County. Thus, labor force participation is lower in San Benito County than Santa Clara County.



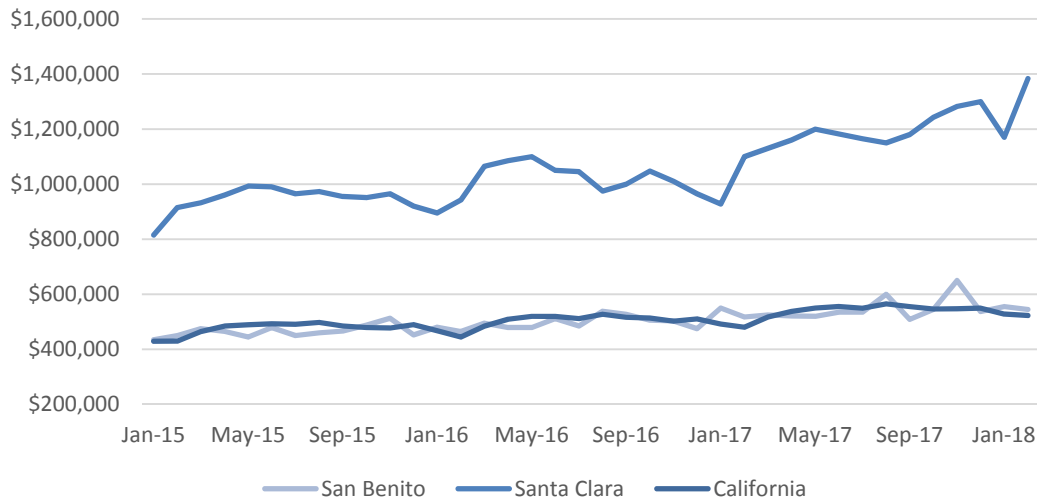
As depicted in Exhibit 7 on the following page, the prices of homes in Santa Clara County increased significantly compared to San Benito County and California. As of January 2018, the median home price was \$1,170,000 in Santa Clara County, \$555,000 in San Benito County, and \$527,780 in California. Increased demand coming from households with improved finances and those priced out of San Francisco and San Jose has resulted in a housing affordability and vacancy rate declines in the assessment area. San Jose is the most unaffordable major housing market in the United States and is considered to be severely unaffordable.¹³ According to the California Association of Realtors’ Traditional Housing Affordability Index, only 15 percent of families in Santa Clara County compared to 31 percent of families in San Benito County and 56 percent of families in the U.S. can afford a median-priced single family home.¹⁴ Since median home prices are significantly higher in Santa Clara County, portions of the workforce in Santa Clara County commute from San Benito County and other surrounding areas.

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

¹³ Demographia, 14th Annual Demographia International Housing Affordability Survey; available from: demographia.com/dhi.pdf.

¹⁴ California Association of Realtors, Housing Affordability Index - Traditional; available from: <https://www.car.org/marketdata/data/haitraditional/>.

**Exhibit 7
Median Home Prices¹⁵
2015-2018**



In addition to rising housing costs, rental prices have also increased drastically, causing buying and renting a home to be more unaffordable, especially to low-income households. As of January 2017, San Jose was the fourth most expensive city in the country in which to rent a one-bedroom unit.¹⁶ Since 2010, the median cost of rent and gross rent has risen more quickly than income in most Bay Area counties, with Santa Clara County having the largest gap between growth in median rent and growth in median income.¹⁷ The intense pressure of the housing market affects low-income households the most; low-income households experience the threat of displacement and homelessness, pay a disproportionate percentage of their income on rent and face overcrowding as a means to deal with rising housing costs.¹⁸

As depicted in Exhibit 8 on the following page, from 2015 to 2016, the percentage of people living below the poverty level and the percentage of households on food stamps in the assessment area generally remained unchanged. While these rates remain lower than statewide averages, many households in the assessment area live in liquid asset poverty. In Santa Clara County, 28 percent of all households are liquid asset poor while 37 percent of all households are liquid asset poor in San Benito County.¹⁹ In addition, poverty in California is even higher when factoring in key family needs and resources. According to the California Poverty Measure, which accounts for the cost of living and a range of family needs and resources, including social safety net benefits, the poverty rate in Santa Clara County is 16.2 percent and 21.1 percent in San Benito County.²⁰

¹⁵ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <https://www.car.org/en/marketdata/data/housingdata>.

¹⁶ U.S. Department of Housing and Urban Development, Comprehensive Housing Market Analysis, San Jose-Sunnyvale-Santa Clara, California; available from: <https://www.huduser.gov/portal/publications/pdf/sanjosecomp-17.pdf>.

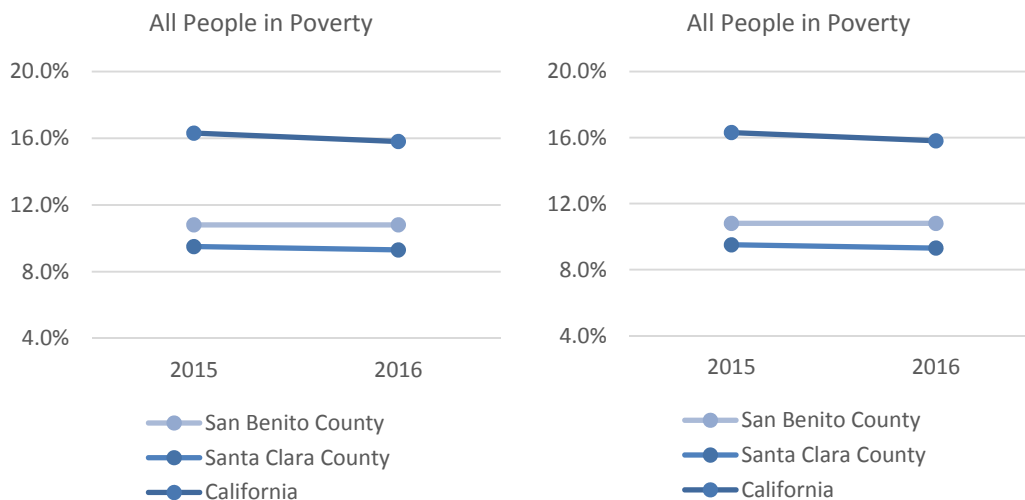
¹⁷ San Francisco Bay Area Planning and Urban Research Association, Room for More, August 2017; available from: www.pur.org/sites/default/files/publications_pdfs/SPUR_Room_for_More.pdf.

¹⁸ Ibid.

¹⁹ Prosperity Now, Scorecard, Santa Clara and San Benito Counties; available from: <https://scorecard.prosperitynow.org/data-by-location>.

²⁰ Public Policy Institute of California, Poverty in California, October 2017; available from: www.ppic.org/wp-content/uploads/JTF_PovertyJTF.pdf.

**Exhibit 8
Poverty and Food Stamp Usage Rates²¹
2015-2016**



Credit and Community Development Needs

The economic data previously discussed as well as feedback from community contacts indicate that small businesses in the assessment area face challenges in accessing credit and that some level of small business credit needs remain unmet by area banks. According to the 2017 Small Business Credit Survey (SBCS), 70 percent of smaller firms (annual revenues of \$100,000 or less) experienced financing shortfalls and obtained less than the amount of financing sought, more often than larger firms.²² Of the financing and credit products sought by businesses, 87 percent of applicants applied for either a business loan or line of credit.²³ Overall, there is a general need for more access to credit and smaller dollar loans.

A variety of factors mentioned previously, including the rising cost of housing and rent, establish the need for affordable housing solutions and funding within the assessment area. In addition to high costs, the assessment area faces a shortage of affordable housing and rental units for its residents. According to the National Low Income Housing Coalition, for every 100 households who need affordable housing, there are only 31 units affordable and available at or below the extremely low income threshold (incomes at or below the power level or 30 percent of their area median income) in the San Jose-Sunnyvale-Santa Clara metro area.²⁴ As housing and rental markets remain undersupplied, residents with lower wages will continue to be priced out of the market and overcrowding and homelessness will continue to grow, further contributing to the need for additional affordable housing units in the assessment area.

²¹ U.S. Census Bureau, American Community Survey, 5-Year Estimates, DP03, 2015-2016; available from: <http://factfinder2.census.gov>.

²² 2017 Small Business Credit Survey, Report on Employer Firms; available from: <https://fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2018/sbcs-employer-firms.pdf>.

²³ Ibid.

²⁴ National Low Income Housing Coalition, The Gap: A Shortage of Affordable Rental Homes, March 2018; available from: https://nlihc.org/sites/default/files/gap-report_2017.pdf.

Finally, the prevalence of poverty highlights the importance of community service organizations within the bank's communities. A review of community contact information indicates that the community can greatly benefit from programs such as rental assistance that aim to improve housing situations and financial education to better equip small business owners for success. There is an opportunity for banks to support the wide range of community needs in the assessment area from affordable housing solutions to access to credit for small businesses by engaging in community development activities and/or partnering with organizations that address the aforementioned needs of those most vulnerable in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN SANTA CLARA-SAN BENITO

Lending Test

Overall, HBC's performance in the Santa Clara-San Benito assessment area is good. This conclusion is based on a good responsiveness to the credit needs within the assessment area, an excellent geographic distribution of small business loans, and a good distribution of small business loans among businesses of different revenue sizes. Moreover, the bank made a relatively high level of community development loans in this assessment area.

Lending Activity

Lending levels reflect good responsiveness to credit needs within the assessment area. As shown on Table 1, the percentage of loans originated in the Santa Clara-San Benito assessment area is generally comparable to the deposits held in this assessment area.

Lending Distribution by Geography

The geographic distribution of loans reflects excellent penetration throughout census tracts of all income levels. As shown in Table 2, the bank's percentage of lending in low- and moderate-income geographies consistently exceeded the performance of other lenders operating in the assessment area. In addition, the bank's volume of lending in low- and moderate-income geographies exceeded the percentage of business entities located in these geographies.

Lending Distribution by Borrower Income and Business Revenue

The distribution of borrowers reflects good penetration among businesses of different revenue sizes. As shown in Table 8, the bank's performance was comparable to the aggregate lending performance of lenders operating in the assessment area. In addition, the bank was responsive to the need for smaller dollar loans by extending a majority of loans in amounts less than \$250,000.

Community Development Lending

HBC made a relatively high level of community development loans in the Santa Clara-San Benito assessment area. The bank extended 62 community development loans, totaling \$44.9 million. These loans supported the articulated need for affordable housing and community services targeted to low- and moderate-income individuals. Highlights of these loans include:

- Eight loans, totaling \$3.8 million, to an organization that develops, constructs, and manages affordable housing for low- and moderate-income families.
- Three loans, totaling \$3.0 million, to an organization that provides technical and financial assistance to low- and moderate-income first-time homebuyers.
- Five loans, totaling \$3.5 million, to an organization that provides vocational training for low- and moderate-income individuals.
- A \$5.0 million loan to an organization that provides job training skills, housing assistance, and financial education to low- and moderate-income individuals.

Investment Test

HBC's performance under the investment test is adequate. The bank had one prior period investment in a mortgage-backed security, totaling \$2.3 million, which was secured by 12 mortgages to low- and moderate-income borrowers. In addition, HBC provided \$421,825 in donations and grants to organizations promoting community development activities, including affordable housing and community services to low- and moderate-income individuals. The following examples highlight notable donations and grants made during the review period:

- One grant for \$10,000 to a housing organization to promote the construction of an owner-occupied affordable housing unit.
- One grant for \$31,000 to fund an internship program that provides low- and moderate-income students with workforce skills.
- One grant for \$5,000 to support an organization that provides community and social services to low- and moderate-income families.

Service Test

The bank's performance under the service test is good based on the accessibility of retail banking services and delivery systems and high level of community development service hours.

Retail Banking Services

HBC's delivery systems are accessible to the bank's geographies and individuals of different income levels in the assessment area. The seven branches in this assessment area provide consistent product offerings and business hours. In addition to the branches, the bank offers alternative delivery systems including telephone banking, online and mobile banking to facilitate banking needs after hours. Many branch locations have ATM access. The branch located at the bank's headquarters, which is located in a moderate-income census tract, does not have ATM access. However, as previously noted, the bank provides fee waivers for the use of out-of-network ATMs.

There was no negative impact on the availability of retail banking services in low- and moderate-income geographies as the bank did not open or close any branches in this assessment area during the review period. The bank operates one branch in a low-income census tract and two branches in moderate-income census tracts within this assessment area.

Community Development Services

HBC provided a high level of community development service hours in this assessment area. Bank personnel provided 1,388 community development service hours to 66 organizations. The majority of these hours included providing financial expertise to organizations engaged in community services for low- and moderate-income individuals. Examples below highlight notable community development services:

- Employees provided 593 hours of community development service serving on the board, the finance committee, or the loan committee of various local non-profit organizations that provide community services to low- and moderate-income individuals and families.

- Bank personnel provided 190 hours of financial literacy education to over 180 low- and moderate-income students. The workshop allows students to enhance their financial skills and influence how they manage their finances.

Alameda-Contra Costa Assessment Area

DESCRIPTION OF OPERATIONS IN ALAMEDA-CONTRA COSTA

The Alameda-Contra Costa assessment area consists of Alameda County and Contra Costa County in their entireties. Alameda County and Contra Costa County are included in the San Francisco-Oakland-Hayward MSA. Alameda County is located along the eastern side of San Francisco Bay and extends east to the San Joaquin Valley. Contra Costa County is located north of Alameda County and is bordered by the San Pablo Bay, Suisun Bay and partially by the San Francisco Bay. With a population of more than 1.7 million people, Alameda County is the most populated county in the San Francisco-Oakland-Hayward MSA followed by Contra Costa County with a population of 1.1 million.²⁵

As of June 30, 2017, the Alameda-Contra Costa assessment area had 53 Federal Deposit Insurance Corporation-insured commercial institutions operating 508 offices. HBC operated four branches in the area, which had total deposits of \$672.1 million, representing 0.7 percent of the market.²⁶

Exhibit 9 on the following page presents key demographic and business information used to help develop a performance context for the assessment area.

²⁵ U.S. Census Bureau, 2017 Population Estimates, Alameda and Contra Costa Counties; available from: <http://quickfacts.census.gov/qfd/index.html>.

²⁶ Federal Deposit Insurance Corporation, Deposit Market Share Report, June 30, 2017; available from: <https://www5.fdic.gov/sod/sodMarketRpt.asp?barItem=2>.

EXHIBIT 9 ASSESSMENT AREA DEMOGRAPHICS ALAMEDA-CONTRA COSTA 2017 2010 U.S. CENSUS AND 2017 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	75	13.2	70,654	11.0	18,641	26.4	156,090	24.3		
Moderate-income	134	23.6	136,501	21.3	16,872	12.4	103,615	16.1		
Middle-income	166	29.2	199,135	31.0	11,470	5.8	116,582	18.2		
Upper-income	190	33.4	235,474	36.7	5,651	2.4	265,767	41.4		
Tract not reported	4	0.7	290	0.0	105	36.2	0	0.0		
Total AA	569	100.0	642,054	100.0	52,739	8.2	642,054	100.0		
Income Categories	Housing Units by Tract	Housing Types by Tract Income								
		Owner-Occupied			Renter-occupied		Vacant			
		#	%	%	#	%	#	%		
Low-income	120,827	29,717	5.5	24.6	81,609	67.5	9,501	7.9		
Moderate-income	232,705	99,406	18.3	42.7	119,155	51.2	14,144	6.1		
Middle-income	307,330	174,396	32.1	56.7	117,718	38.3	15,216	5.0		
Upper-income	333,220	239,687	44.1	71.9	81,157	24.4	12,376	3.7		
Tract not reported	777	106	0.0	13.6	602	77.5	69	8.9		
Total AA	994,859	543,312	100.0	54.6	400,241	40.2	51,306	5.2		
Income Categories	Total Businesses by Tract	Businesses by Tract Income & Revenue Size								
		Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported				
		#	%	#	%	#	%			
Low-income	10,556	8.9	9,466	8.7	1,042	10.3	48	9.5		
Moderate-income	23,833	20.0	21,648	20.0	2,075	20.5	110	21.8		
Middle-income	36,064	30.3	32,763	30.2	3,161	31.3	140	27.8		
Upper-income	48,439	40.7	44,426	41.0	3,807	37.7	206	40.9		
Tract not reported	92	0.1	76	0.1	16	0.2	0	0.0		
Total AA	118,984	100.0	108,379	100.0	10,101	100.0	504	100.0		
Percentage of Total Businesses		91.1		8.5		0.4				
Income Categories	Total Farm Entities by Tract	Farms by Tract Income & Revenue Size								
		Less Than or Equal to \$1 Million		9,		Revenue Not Reported				
		#	%	#	%	#	%			
Low-income	25	3.9	22	3.5	3	12.0	0	0.0		
Moderate-income	94	14.6	91	14.7	3	12.0	0	0.0		
Middle-income	163	25.2	155	25.0	7	28.0	1	100.0		
Upper-income	364	56.3	352	56.8	12	48.0	0	0.0		
Tract not reported	0	0.0	0	0.0	0	0.0	0	0.0		
Total AA	646	100.0	620	100.0	25	100.0	1	100.0		
Percentage of Total Farms		96.0		3.9		0.2				
2017 Median Family Income ²⁷			2017 Median Housing Value ²⁸							
Alameda County			\$94,424			Alameda County			\$862,000	
Contra Costa County			\$94,424			Contra Costa County			\$600,000	
2017 HUD Adjusted Median Family Income ²⁹			2017 Unemployment Rate ³⁰							
Alameda County			\$97,400			Alameda County			3.6%	
Contra Costa County			\$97,400			Contra Costa County			3.8%	

²⁷ U.S. Department of Housing and Urban Development, Median Family Income Estimate; available from: <http://www.huduser.org/portal/datasets/il/il13/index.html>.

²⁸ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <https://www.car.org/en/marketdata/data/housingdata>.

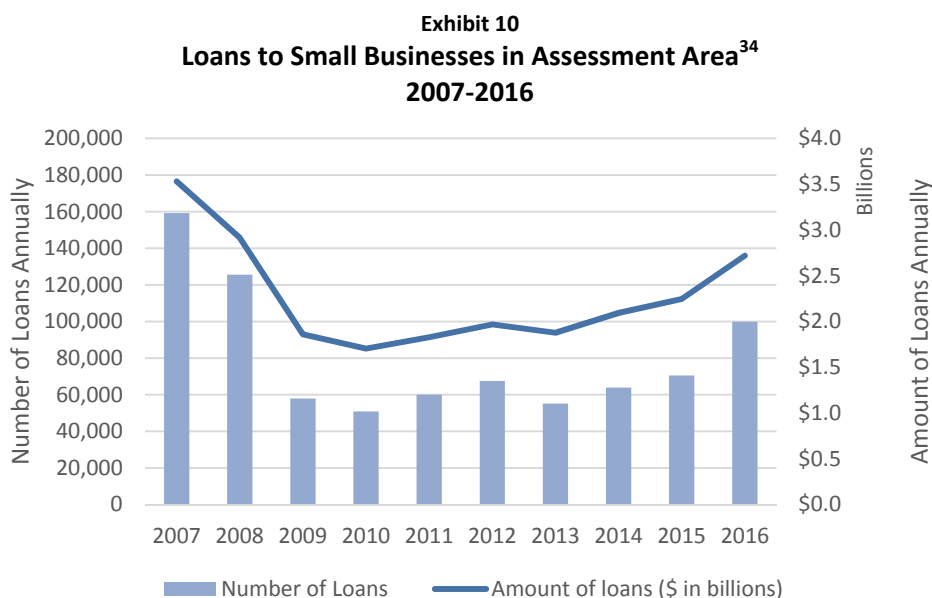
²⁹ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il13/index.html>.

³⁰ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

Economic Conditions

During the review period, the assessment area’s economy continued to recover from the Great Recession with a strong job market and healthy consumer spending activity. Economic expansion in the East Bay counties of Alameda and Contra Costa was largely driven by the health care, retail trade and high technology sectors.³¹ The assessment area is home to University of California, Berkeley, the region’s largest employer, followed by Safeway and Kaiser Permanente which are all strong economic catalysts for the area.³² The assessment area continued to benefit from its proximity to the world’s tech capitals due to stronger than expected spillover growth from San Francisco and San Jose. Affordable industrial and office space relative to its high-cost neighbors allowed the area to experience organic technology firm expansion and attract technology firms to the East Bay.³³

Economic improvements in the assessment area can also be seen in small business lending trends. A review of small business loan data reported by banks subject to the CRA shows that small business lending levels are improving but remain depressed relative to levels achieved prior to the Great Recession. As depicted in Exhibit 10, from 2015 to 2016, the number of loans to small businesses in the assessment area increased from 70,547 to 99,887, and the amount increased from \$2.2 billion to \$2.7 billion. Similar to the previous assessment area, lending to small businesses plays a critical role in the economy given that small businesses represented 91.1 percent of all businesses in the assessment area as depicted in Exhibit 9.



As depicted in Exhibit 11 on the following page, the unemployment rate of both counties in the assessment area has consistently been lower than the statewide rate during the review period. As of January 2018, both Alameda and Contra Costa Counties had unemployment rates below 4 percent, which is similar to most Bay Area counties as the region leads California in lowest unemployment rates.

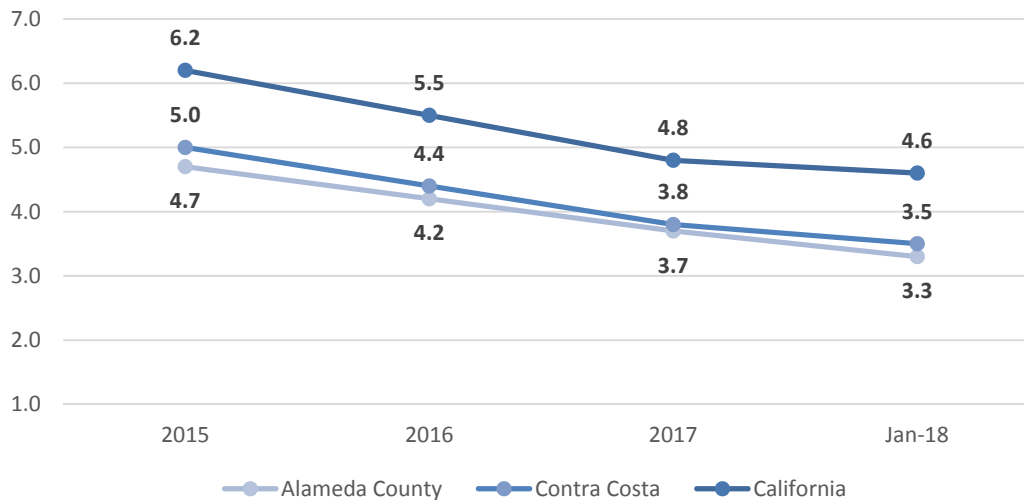
³¹ Moody’s Analytics, Précis Report, Oakland-Hayward-Berkeley, April 2017.

³² Ibid.

³³ Ibid.

³⁴ Aggregate CRA Small Business data reports available from: <http://www.ffiec.gov/craadweb/national.aspx>.

Exhibit 11
Unemployment Rate³⁵
2015-2018



As depicted in Exhibit 12 on the following page, the prices of homes in the assessment area increased significantly during the review period. As of January 2018, the median home price in Alameda County was \$840,000 and \$555,000 in Contra Costa County.³⁶ Median home prices are generally higher in Alameda County, which includes the principal city of Oakland, than in Contra Costa County. Increased demand coming from households with improved finances and those priced out of San Francisco and San Jose has resulted in a housing affordability and vacancy rate decline in the assessment area. According to the California Association of Realtors’ Traditional Housing Affordability Index, 20 percent of families in Alameda County and 34 percent of families in Contra Costa County can afford a median priced single-family home compared to 56 percent of families in the U.S.³⁷

Rental housing market conditions in the assessment area are also very tight, with an overall estimated rental vacancy rate of 2.7 percent, down from 6.6 percent in April 2010.³⁸ A combination of factors has contributed to increased rental demand such as strong net in-migration from households priced out of San Francisco and San Jose and rising for-sale home prices. As of January 2017, Oakland was the fifth most expensive city in the country in which to rent a one-bedroom unit, behind San Jose at number four and San Francisco at number one.³⁹

³⁵ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://data.bls.gov/cgi-bin/dsrv?la>.

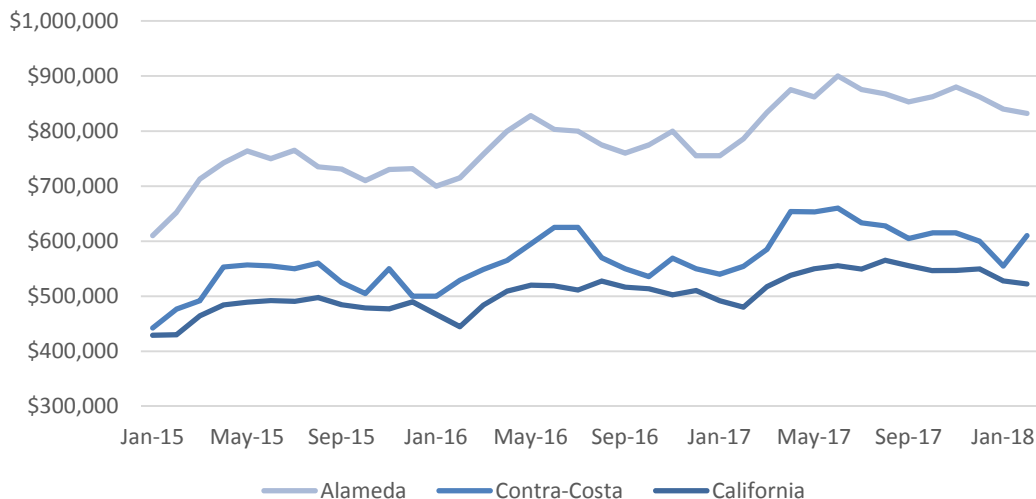
³⁶ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <https://www.car.org/en/marketdata/data/housingdata>.

³⁷ California Association of Realtors, Housing Affordability Index - Traditional; available from: <https://www.car.org/marketdata/data/haitraditional/>.

³⁸ U.S. Department of Housing and Urban Development, Comprehensive Housing Market Analysis, Oakland-Hayward-Berkeley, California; available from: <https://www.huduser.gov/portal/publications/pdf/oaklandca-comp-17.pdf>.

³⁹ Ibid.

Exhibit 12
Median Home Prices⁴⁰
2015-2018



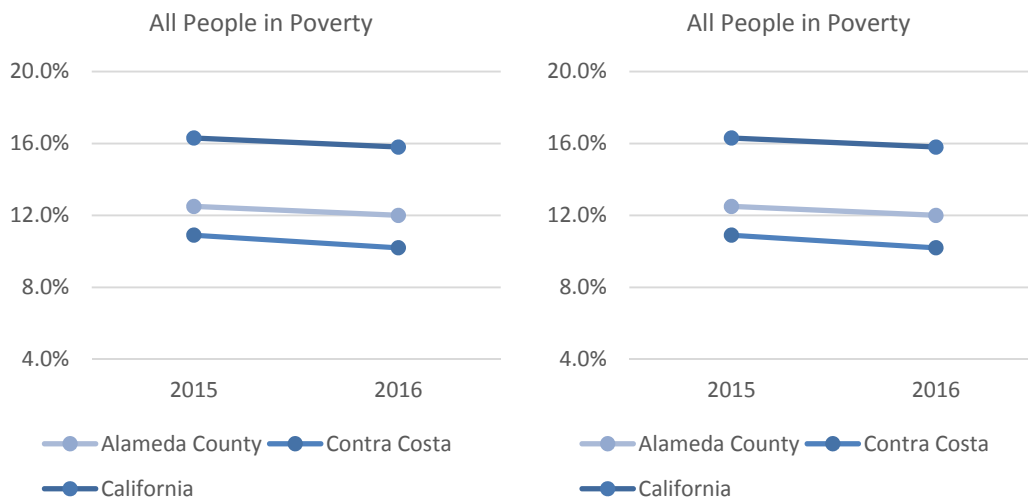
As depicted in Exhibit 13 on the following page, from 2015 to 2016, the percentage of people living below the poverty level and the percentage of households on food stamps in the assessment area generally remained flat. While these rates remain lower than statewide averages, many households in the assessment area live in financial insecurity and liquid asset poverty. Liquid asset poverty is a measure of the liquid savings households hold to cover basic expenses for three months if they experienced a sudden job loss, a medical emergency or another financial crisis leading to a loss of stable income. In Alameda County, 38 percent of all households are liquid asset poor, and of households in Oakland earning between \$50,000 and \$65,000 annually, 43 percent are liquid asset poor.⁴¹ Those most likely to be liquid asset poor and financially vulnerable are households of color, low-income households and those with less than a college degree.⁴²

⁴⁰ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <https://www.car.org/en/marketdata/data/housingdata>.

⁴¹ Prosperity Now, Building Financial Security in Oakland and Alameda County: A Data Snapshot; available from: https://prosperitynow.org/files/pdfs/profiles/oakland_family_assets_count_data_profile.pdf.

⁴² Ibid.

**Exhibit 13
Poverty and Food Stamp Usage Rates⁴³
2015-2016**



Credit and Community Development Needs

Similar to the Santa Clara-San Benito assessment area, despite improving small business lending levels, there is a degree of small business credit needs that is left unmet by area banks, including the need for microloans and working-capital loans and lines of credit. In terms of affordable housing needs, high housing costs and low availability of affordable housing in the assessment area highlight a need for products and services that support access to affordable housing. Banks have an opportunity to address the aforementioned needs by supporting affordable housing initiatives and partnering with local community and non-profit organizations that work on issues related to housing. Finally, the prevalence of poverty in the assessment area highlights the importance of community service organizations within the bank’s communities to provide services to those in financial distress. Banks can take steps to help alleviate some of the challenges that low-income residents and workers face due to pressures from the tight housing market and their lack of financial stability.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS IN ALAMEDA-CONTRA COSTA

Lending Test

HBC’s overall performance under the lending test is good. Lending levels reflect good responsiveness to the assessment area credit needs. The geographic distribution of loans reflects good penetration throughout the assessment area in geographies of different income levels. The bank provided a good distribution of loans to businesses of different revenue sizes. HBC’s community development lending also demonstrated good responsiveness to the credit needs of low- and moderate-income individuals and geographies and very small businesses.

⁴³ U.S. Census Bureau, American Community Survey, 5-Year Estimates, DP03, 2015-2016; available from: <http://factfinder2.census.gov>.

Lending Activity

Overall, the lending levels within the Alameda-Contra Costa assessment reflect good responsiveness to assessment area credit needs. As shown in Table 1, the percentage of loans originated in the Alameda-Contra Costa assessment area is comparable to the percentage of deposits the bank maintains within the assessment area.

Lending Distribution by Geography

The geographic distribution of small business loans within the assessment area reflects good penetration throughout all geographies. As shown in Table 2, HBC's lending in low-and moderate-income geographies was generally consistent with other lenders operating in the assessment area.

Lending Distribution by Borrower Income and Business Revenue

The distribution of borrowers reflects good penetration among businesses of different revenue sizes. As shown in Table 8, the bank's performance was generally consistent with the performance of other lenders operating within the assessment area. Similar to the Santa Clara-San Benito assessment area, the bank was responsive to the need for smaller dollar credit with a majority of loans provided in amounts less than \$250,000 and a large percentage provided in amounts less than \$100,000.

Community Development Lending

HBC extended a relatively high level of community development loans within the assessment area. As presented in Table 1, HBC extended 19 community development loans totaling \$20.0 million. These loans were responsive to the needs for affordable housing, community services targeted to low- and moderate-income individuals, and economic development. Highlights of the bank's community development loans include:

- A \$5.0 million construction loan that provided financing to a non-profit organization to build 30 affordable owner-occupied housing units in Alameda County.
- Two SBA loans totaling over \$2.8 million to purchase a commercial property that helped retain nine jobs.
- Four loans totaling over \$3.4 million to an organization that provides academic assistance to students from low- and moderate-income households.

Investment Test

The bank's performance under the investment test is good. As shown in Table 13, the bank made 32 investments during the current period totaling \$2.9 million. Of this total, three new investments were made in mortgage-backed securities or minority-owned financial institutions. The remaining current period investments are attributed to grants and donations to organizations that provided community services to low- and moderate-income individuals. The bank also maintained one prior period investment on its books. The following examples highlight some of these investments.

- A \$2.5 million mortgage-backed security secured by seven mortgages extended to low- and moderate-income borrowers in the assessment area.

- Two investments in minority-owned financial institutions totaling \$342,467. The institutions operate in and serve low- and moderate-income geographies.
- A \$3.2 million prior period Low Income Housing Tax Credit investment with an unfunded commitment of \$289,539 that helped support the development of 123 affordable rental housing units.

Service Test

HBC's performance under the service test for the Alameda-Contra Costa assessment area is good based on the accessibility of delivery systems and the relatively high number of community development service hours.

Retail Banking Services

HBC's delivery systems are reasonably accessible to the different geographies and individuals of different income levels in the Alameda-Contra Costa assessment area. The bank offers a consistent set of products, services, and business hours at all six branches in the assessment area. Additionally, the alternative delivery systems previously discussed provide consistent and reasonable accessibility after business hours. As noted in Table 14, no branches are located in low- or moderate-income census tracts; however, three of the six branches are located adjacent to a low- or moderate-income census tract.

Community Development Services

HBC employees provide a relatively high level of community development services. The bank provided 1,228 community development service hours that assisted 42 organizations in the assessment area. Certain services were responsive to the needs highlighted in the performance context. In addition, many of the services provided in this assessment area involved enhancing financial literacy for low- and moderate-income individuals. Notable community development services are highlighted below:

- One bank representative served on the finance committee for an organization that provides transitional housing for low- and moderate-income individuals.
- Bank personnel provided 110 hours of financial expertise serving on the board of a non-profit that connects low- and moderate-income families to financial assistance programs for child care.
- Two bank representatives provided technical assistance to small business owners regarding access to SBA loans.

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.

APPENDIX B

CRA Core Tables

Table 1	Lending Volume of Reported Loans
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HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 1 - Lending Volume of Reported Loans

Evaluation Period: January 1, 2015 to December 31, 2017

Assessment Areas	% of Rated Area Loans	Small Business Loans		Small Farm Loans		All HMDA Loans		Community Development Loans		Total Reported Loans		% of Rated Area Deposits
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	
<i>Full Scope</i>												
Alameda-Contra Costa	47.7	1,036	262,574	0	0	31	30,178	19	20,029	1,067	292,752	50.1
Santa Clara-San Benito	52.3	1,153	290,777	1	200	18	17,339	62	44,914	1,172	308,316	49.9

Table 2 - Geographic Distribution of Small Business Loans

Evaluation Period: January 1, 2015 to December 31, 2017

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Bank Loans (%)	Business Entities (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2015	274	47.6	6.2	10.2	13.1	17.5	29.6	32.4	51.1	39.9	7.8	16.2	31.9	44.1	0.4	0.3	0.3	0.4	0.5
Alameda-Contra Costa 2016	436	46.6	14.2	10.2	17.0	17.5	27.5	32.2	41.3	40.1	7.2	15.6	31.8	45.4	0.4	0.9	0.5	0.4	0.4
Alameda-Contra Costa 2017	325	48.0	8.0	8.9	13.8	20.0	29.5	30.3	48.6	40.7	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Santa Clara-San Benito 2015	302	52.4	13.9	6.0	32.8	22.5	28.1	35.3	25.2	36.2	5.3	22.6	36.3	35.7	0.6	1.5	0.8	0.4	0.4
Santa Clara-San Benito 2016	499	53.4	15.0	6.0	34.3	22.2	31.7	35.2	19.0	36.6	5.4	22.3	36.8	35.5	0.7	1.9	1.0	0.6	0.4
Santa Clara-San Benito 2017	352	52.0	11.1	5.8	29.0	18.5	35.5	36.1	24.4	39.6	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 3 - Geographic Distribution of Small Farm Loans

Evaluation Period: January 1, 2016 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)	Bank Loans (%)	Farm Entities (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2016	0	0.0	0.0	4.5	0.0	11.1	0.0	32.4	0.0	52.0	2.9	10.1	25.4	61.6	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2016	1	100.0	0.0	1.8	0.0	24.1	100.0	36.7	0.0	37.5	2.0	30.9	34.2	32.9	0.7	0.0	0.0	1.9	0.0

Table 4 - Geographic Distribution of Home Purchase Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2015	1	25.0	0.0	5.7	100.0	15.6	0.0	36.4	0.0	42.2	6.2	16.2	38.9	38.7	0.0	0.0	0.0	0.0	0.0
Alameda-Contra Costa 2016	7	53.8	0.0	5.7	0.0	15.6	28.6	36.4	71.4	42.2	6.7	16.8	39.5	37.0	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2015	3	75.0	0.0	4.4	0.0	18.7	33.3	39.5	66.7	37.5	5.4	23.7	42.2	28.7	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2016	6	46.2	0.0	4.4	0.0	18.7	50.0	39.5	50.0	37.5	6.3	23.7	42.9	27.1	0.0	0.0	0.0	0.0	0.1

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 5 - Geographic Distribution of Home Mortgage Refinance Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2015	1	100.0	0.0	5.7	0.0	15.6	0.0	36.4	100.0	42.2	4.0	13.6	37.8	44.6	0.0	0.0	0.0	0.0	0.0
Alameda-Contra Costa 2016	12	66.7	0.0	5.7	8.3	15.6	25.0	36.4	66.7	42.2	4.2	13.6	38.0	44.2	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2015	0	0.0	0.0	4.4	0.0	18.7	0.0	39.5	0.0	37.5	4.4	19.3	40.6	35.7	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2016	6	33.3	0.0	4.4	16.7	18.7	16.7	39.5	66.7	37.5	4.4	20.1	40.9	34.7	0.0	0.0	0.0	0.0	0.0

Table 6- Geographic Distribution of Home Improvement Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Bank Loans (%)	Owner Occ Units (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2016	2	50.0	0.0	5.7	0.0	15.6	0.0	36.4	100.0	42.2	5.9	16.0	37.0	41.1	0.0	0.0	0.0	0.0	0.1
Santa Clara-San Benito 2016	2	50.0	0.0	4.4	0.0	18.7	0.0	39.5	100.0	37.5	4.3	17.6	40.4	37.7	0.1	0.0	0.0	0.0	0.1

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 7 - Geographic Distribution of Multifamily Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Multifamily Units (%)	Bank Loans (%)	Multifamily Units (%)	Bank Loans (%)	Multifamily Units (%)	Bank Loans (%)	Multifamily Units (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2015	6	85.7	16.7	18.9	16.7	29.4	50.0	33.3	16.7	18.4	24.5	38.0	26.8	10.6	0.7	0.5	0.6	1.3	0.0
Alameda-Contra Costa 2016	2	100.0	0.0	18.9	100.0	29.4	0.0	33.3	0.0	18.4	26.6	40.0	24.2	9.2	0.2	0.0	0.6	0.0	0.0
Santa Clara-San Benito 2015	1	14.3	0.0	10.4	0.0	31.4	0.0	39.9	100.0	18.4	21.9	30.2	30.5	17.4	0.3	0.0	0.0	0.0	1.4
Santa Clara-San Benito 2016	0	0.0	0.0	10.4	0.0	31.4	0.0	39.9	0.0	18.4	15.7	35.7	36.7	11.9	0.0	0.0	0.0	0.0	0.0

Table 8 - Borrower Distribution of Small Business Loans

Evaluation Period: January 1, 2015 to December 31, 2017

Assessment Areas	Total Small Business Loans		Businesses with Revenue <= \$1 Million		Originations Regardless of Revenue Size			Aggregate Lending (%)		Market Share (%)	
	Bank Loans (#)	% Rated Area Total	Bank Loans (%)	All Businesses (%)	<= \$100K	> \$100K and <= \$250K	> \$250K and <= \$1 Million	All Loans	Loans to Revenue <= \$1 Million (%)	All Loans	Loans to Revenue <= \$1 Million (%)
<i>Full Scope</i>											
Alameda-Contra Costa 2015	274	47.6	38.0	92.3	28.1	32.1	39.8	69,753	53.7	0.4	0.3
Alameda-Contra Costa 2016	436	46.6	56.2	91.1	56.2	17.4	26.4	98,189	39.1	0.4	0.6
Alameda-Contra Costa 2017	326	48.1	48.5	91.1	45.7	20.2	34.0	N/A	N/A	N/A	N/A
Santa Clara-San Benito 2015	302	52.4	30.5	91.5	28.1	27.5	44.4	53,179	52.6	0.6	0.3
Santa Clara-San Benito 2016	499	53.4	58.7	90.5	58.7	14.0	27.3	73,140	39.7	0.7	1.0
Santa Clara-San Benito 2017	352	51.9	39.5	90.5	38.6	25.6	35.8	N/A	N/A	N/A	N/A

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 9 - Borrower Distribution of Small Farm Loans

Evaluation Period: January 1, 2016 to December 31, 2016

Assessment Areas	Total Small Farm Loans		Farms with Revenue <= \$1 Million		Originations Regardless of Revenue Size			Aggregate Lending (%)		Market Share (%)	
	Bank Loans (#)	% Rated Area Total	Bank Loans (%)	All Farms (%)	<= \$100K	> \$100K and <= \$250K	> \$250K and <= \$1 Million	All Loans	Loans to Revenue <= \$1 Million (%)	All Loans	Loans to Revenue <= \$1 Million (%)
<i>Full Scope</i>											
Alameda-Contra Costa 2016	0	0.0	0.0	96.0	0.0	0.0	0.0	138	50.7	0.0	0.0
Santa Clara-San Benito 2016	1	100.0	100.0	93.1	0.0	100.0	0.0	152	54.6	0.7	1.2

Table 10 - Borrower Distribution of Home Purchase Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending (%)				Market Share (%)				
	# Loans	% Rated Area Total	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid	Upp
<i>Full Scope</i>																			
Alameda-Contra Costa 2015	1	100.0	0.0	23.3	0.0	16.4	0.0	19.2	100.0	41.1	2.5	12.0	22.1	63.3	0.0	0.0	0.0	0.0	0.0
Alameda-Contra Costa 2016	0	0.0	0.0	23.3	0.0	16.4	0.0	19.2	0.0	41.1	1.6	10.6	21.8	66.0	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2015	0	0.0	0.0	23.7	0.0	16.3	0.0	19.5	0.0	40.5	1.4	8.0	21.6	68.9	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2016	0	0.0	0.0	23.7	0.0	16.3	0.0	19.5	0.0	40.5	1.3	6.9	20.2	71.7	0.0	0.0	0.0	0.0	0.0

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 11 - Borrower Distribution of Home Mortgage Refinance Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending (%)				Market Share (%)					
	# Loans	% Rated Area Total	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid
<i>Full Scope</i>																				
Alameda-Contra Costa 2015	0	0.0	0.0	23.3	0.0	16.4	0.0	19.2	0.0	41.1	4.3	12.9	22.6	60.2	0.0	0.0	0.0	0.0	0.0	0.0
Alameda-Contra Costa 2016	1	100.0	0.0	23.3	0.0	16.4	100.0	19.2	0.0	41.1	3.5	12.2	22.8	61.5	0.0	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2015	0	0.0	0.0	23.7	0.0	16.3	0.0	19.5	0.0	40.5	3.7	11.4	22.1	62.8	0.0	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito 2016	0	0.0	0.0	23.7	0.0	16.3	0.0	19.5	0.0	40.5	2.8	10.2	21.3	65.6	0.0	0.0	0.0	0.0	0.0	0.0

Table 12 - Borrower Distribution of Home Improvement Loans

Evaluation Period: January 1, 2015 to December 31, 2016

Assessment Areas	Total Loans from Bank		Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Aggregate Lending (%)				Market Share (%)					
	# Loans	% Rated Area Total	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Bank Loans (%)	Families (%)	Low	Mod	Mid	Upp	Overall	Low	Mod	Mid
<i>Full Scope</i>																				
Alameda-Contra Costa	0	0.0	0.0	23.3	0.0	16.4	0.0	19.2	0.0	41.1	4.4	14.6	23.8	57.1	0.0	0.0	0.0	0.0	0.0	0.0
Santa Clara-San Benito	0	0.0	0.0	23.7	0.0	16.3	0.0	19.5	0.0	40.5	4.6	12.6	21.4	61.4	0.0	0.0	0.0	0.0	0.0	0.0

HERITAGE BANK OF COMMERCE, San Jose, California

Rated Area: State of California

Table 13 - Qualified Investments

Evaluation Period: July 13, 2015 to April 16, 2018

Assessment Areas	Prior Period Investments*		Current Period Investments		Total Investments			Unfunded Commitments**	
	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	% of Total	#	\$ (000's)
<i>Full Scope</i>									
Alameda-Contra Costa	1	3,292	32	2,940	33	6,232	17.3	1	289
Santa Clara-San Benito	1	2,289	125	422	126	2,711	7.5	0	0
Regional	6	4,633	22	22,410	28	27,043	75.2	0	0
Total	8	10,214	179	25,771	187	35,986	100	1	289

Table 14- Distribution of Branch Delivery System and Branch Openings/Closings

Evaluation Period: January 1, 2015 to December 31, 2017

Assessment Areas	Deposits ¹	Branches						Branch Openings / Closings						Population			
	% of Rated Area Deposits in AA	# of Bank Branches	% of Rated Area Branches in AA	Location of Branches by Income Level of Geography (%)				# of Branch Openings	# of Branch Closings	Net Change in Location of Branches (+ or -)				% of Population within each Geography			
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp
<i>Full Scope</i>																	
Alameda-Contra Costa	50.1	6	46.2	0.0	0.0	66.7	33.3	2	0	0	0	+1	+1	12.6	22.8	31.2	33.3
Santa Clara-San Benito	49.9	7	53.8	14.3	28.6	42.9	14.3	0	0	-1	+1	+1	-1	9.3	22.3	36.3	32.0

¹ Deposit base does not include Tri-Valley branches