

PUBLIC DISCLOSURE

May 10, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pacific Liberty Bank
RSSD #2661898**

**19950 Beach Boulevard
Huntington Beach, California 92648**

**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 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

INSTITUTION'S CRA RATING: This institution is rated satisfactory.

The major factors supporting the institution's rating include:

- A majority of the loans were originated within the assessment area.
- A good penetration of loans to businesses with gross annual revenues of \$1 million or less.
- Lending patterns within the assessment area exhibited adequate dispersion among geographics of different income levels.
- A significant amount of small business loans were in amounts less than 100,000 which met a stated credit need.

PERFORMANCE CONTEXT

Description of Institution

Pacific Liberty Bank (PLB) is a full service state-member bank which began operations on May 17, 1999, with one branch. Since then the bank added an additional branch office in 2001 and as of December 31, 2003, total assets equaled approximately \$98 million. Both branch locations, located in the city of Huntington Beach, aim to serve the needs of small- to medium-sized businesses with personalized service and by cultivating long-term relationships.

Loan Type	Dollar Amount ('000s)	Percent of Total Loans
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$51,794	80.0%
Secured by 1-4 Family Residential Real Estate	\$6,310	9.7%
Consumer Loans and Credit Cards	\$2,156	3.3%
Construction and Land Development	\$5,329	8.2%
Other	\$11	<1%
Less: Unearned Income	(\$887)	(1.3%)
Total (Gross)	\$64,713	100%

Since the year of formation, the bank has grown rapidly by focusing on commercial lending. Commercial loan products include: owner occupied real estate loans, operating lines of credit, equipment loans, and small businesses start-up financing. Also, construction financing is a growing part of the company's product offerings. Although consumer and real estate mortgage loan products also are offered, they are primarily extended on an accommodation basis to existing commercial customers. Lastly, deposit products include checking accounts, savings accounts, money market accounts, and certificates of deposit. Due to the low volume of consumer lending and the bank's strategic focus, commercial loans were the primary focus of the CRA review.

There are no legal or financial impediments that would prevent the bank from meeting the credit needs of the community consistent with its size, financial resources, and local economic conditions. The bank received a satisfactory rating at its previous CRA examination conducted as of May 15, 2000.

Description of Assessment Area

Pacific Liberty's one assessment area, which remains unchanged since the previous examination, consists of 130 census tracts in the following six Orange County cities: Costa Mesa, Fountain Valley, Huntington Beach, Newport Beach, Seal Beach, and Westminster. Orange County is the 2nd most populated county in California and located in the southern coastal region of the state. California Employment Development Department estimates put the

population at over 2.9 million. By the year 2020, Orange County is estimated to have a population of 3.5 million.

Huntington Beach, the largest of the assessment area cities, is located on the Pacific coast in northwestern Orange County with Los Angeles 35 miles to the northwest, and San Diego 95 miles to the southeast. The fastest growing city in the county is Newport Beach which has experienced a 10.7 percent population increase since 2002.¹ The characteristics of the assessment area are similar to the County as a whole except that there are no low-income census tracts in the former.

For loans originated after January 1, 2003, banks are required to report the loans using the 2000 census data. Loans originated prior to this cut-off were reported using the 1990 census data. Because this examination reviewed small business loans originated in 2002 and 2003, the 1990 and 2000 census data were used in the evaluation. A comparison of the 1990 and 2000 census data indicates that the number of moderate- and upper-income tracts have increased. The following tables highlight the 1990 and 2000 census data regarding the geographic composition of the assessment area used to develop the performance context. As seen below, the number of census tracts in the assessment area rose from 120 to 130.

1990 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract		Households by Census Tract	
	#	%	#	%	#	%	#	%
Low	0	0%	0	0%	0	0%	0	0%
Moderate	19	16%	96,926	18%	21,071	16%	36,065	18%
Middle	56	47%	258,729	49%	62,486	48%	99,783	49%
Upper	43	36%	173,443	33%	47,035	36%	67,028	33%
N/A	2	1%	15	<1%	0	0%	8	<1%
Total	120	100%	529,113	100%	130,592	100%	202,884	100%

2000 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract		Households by Census Tract	
	#	%	#	%	#	%	#	%
Low	0	0%	0	0%	0	0%	0	0%
Moderate	22	17%	118,945	20%	24,366	17%	39,726	18%
Middle	54	41.5%	251,088	43%	58,841	42%	90,986	42%
Upper	54	41.5%	214,334	37%	57,134	41%	88,650	40%
Total	130	100%	584,367	100%	410,341	100%	202,884	100%

The overall banking environment is highly competitive with over 360 banks extending business loans in Orange County, according to aggregate data for 2002. The assessment area contains more than 80 financial institutions with branch locations. In addition, there are a significant amount of other lenders located just outside the identified assessment area. Pacific Liberty was

¹ California Employment Development Department, Labor Market Information Division, *County Snapshot - Orange County 2003*.

ranked 13th in deposits, with 2.1 percent of the deposits in the city of Huntington Beach as of June 30, 2003.²

Business and Economic Conditions

Although industry and sector performance in the County was somewhat mixed during the evaluation period, the overall economic picture was good. The regional economy is diverse but the core drivers include service-oriented companies, distributors and manufacturers that encompass high technology, food, apparel, and communications. The fastest growing areas included construction, leisure, hospitality, and agriculture.³ However, growth in retailing and transportation services, which reflect the travel and tourism industry, was generally stagnant.⁴ The third largest employment sector in the County, manufacturing, experienced job losses. Nonetheless, preliminary estimates of the county's Gross Metropolitan Product (GMP) for 2003 suggest continued expansion from the \$150.7 billion recorded in 2002.⁵

One of the factors supporting GMP expansion estimates is the bright employment picture. During the period of January 1, 2002 through December 31, 2003, total employment increased by approximately 30,000 workers.⁶ For the period ending 2003, the unemployment rate for Orange County was a low 3.2 percent compared to the California and U.S. unemployment rate of 6.2 percent and 5.8 percent, respectively.⁷ Furthermore, the most recent data suggests that average per capita income is approximately \$38,300, which is approximately 7 percent above the national average.⁸ While weathering the economic slowdown at the beginning of the decade, the diverse economic base has provided for a resilient job market.

2003 Major Employment Industries	
Industry	Orange County
Services	40.6%
Retail and Wholesale Trade	16.7%
Manufacturing	13.5%

² FDIC, *Summary of Deposits*, year 2002.

³ Ibid.

⁴ Economy.com, *Orange County*, Winter 2003 (accessed May 2004); available from <http://www.economy.com>.

⁵ Collier Seeley Industrial Market Report, *Orange County*, First Quarter 2004; GPEC Information Center, *Gross Metropolitan Product*, (accessed July 2004); available from <http://www.gpec.org/infocenter/topics/economy/gmp.html>.

⁶ Torto Wheaton Research, *Multi-Housing Outlook*, Summer, 2004.

⁷ CB Richard Ellis, *Market View, Orange County Retail*, First Quarter 2004.

⁸ Torto Wheaton Research, *Multi-Housing Outlook*, Summer 2004.

Orange County Top Ten Employers	
Company	Number of Employees
Walt Disney Company	21,000
University of California Irvine	15,500
The Boeing Company	11,160
St. Joseph Health System	8,975
Albertson's, Inc.	8,700
Tenet Healthcare Corporation	8,389
Yum! Brands, Inc.	6,500
Target Corporation	5,436
SBC Communications, Inc.	5,185
PacifiCare Health Systems, Inc.	4,800

Demographic and economic information, including interviews with community representatives, indicate that small business financing, especially start-up financing and loans in small dollar amounts, continues to be an area credit need. According to the Orange County Business Council, "(s)ince 2000 it has been increasingly difficult for Orange County companies to obtain business capital." Community contacts also cite a need for small business loans in amounts less than \$100,000 to finance working capital needs, inventory, and equipment. In addition to these capital needs, community contacts indicated that financial literacy programs are needed as well as grants to organizations assisting start-up businesses.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Pacific Liberty's CRA performance was evaluated using the small bank examination procedures. The evaluation was based upon the following performance criteria:

- loan volume in comparison to deposits (Loan-to-Deposit Ratio)
- lending inside and outside the assessment area (Lending in Assessment Area)
- distribution of lending to businesses with different revenue sizes (Lending by Business Revenue)
- dispersion of lending throughout the assessment area (Geographic Distribution of Loans)

Responsiveness to consumer complaints related to CRA performance was not evaluated, as the bank received no CRA-related complaints.

The CRA evaluation was based upon small business loans extended during the sample period of January 1, 2002, through December 31, 2003. Consumer loans were not a major product and accounted for only a small portion of the loan portfolio. As a result, a review of consumer loans was not conducted in this CRA examination. Consistent with Pacific Liberty's commercial focus, only small business loans were considered in the evaluation. A total of 260 small

business loans were originated during the review period and these loans were used in the evaluation. Only those loans extended inside the assessment area were used to evaluate the geographic distribution and the distribution to businesses with different revenues.

Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable, consistent with peer lenders, and reflects a sufficient level of lending activity. The eight-quarter average loan-to-deposit ratio has increased to 75 percent from 39 percent at the prior examination.

Lending in Assessment Area

The concentration of loans extended inside the assessment area meets standards for satisfactory performance. Small business loans extended within the assessment area were 57 percent and 53 percent by number and dollar volume, respectively.

Lending by Business Revenue

Lending to businesses with different annual revenues meets standards for satisfactory performance. The strength of this performance is based on the comparatively high percentage of small business loans extended to small businesses (defined as companies with gross annual revenues of \$1 million or less) and the significant number of loans extended in small dollar amounts. During the review period, lending to small businesses equaled 32 percent by number and 29 percent by dollar volume. This performance compared favorably to the aggregate lending figures of 27 and 28 percent by number and dollar volume, respectively.

Although lending to small businesses was below the concentration of small businesses in the area (83 percent), it is considered reasonable given competitive factors and the transition of the bank's customers from small to larger entities. As mentioned above, the county is a competitive marketplace for financial services. One of the bank's key growth strategies is to leverage its ability to foster an ongoing business relationship with its customers which, in many cases, involves multiple credit transactions over time. Consequently, a significant number of small business customers have grown since the initial transaction and now have gross annual revenues that exceed \$1 million. Nevertheless, the bank extended loans in small dollar amounts which met a stated need for small businesses. Approximately 77 percent of the loans extended were under \$250,000; with most of these loans in amounts less than \$100,000.

Geographic Distribution of Loans

The geographic distribution of loans meets standards for satisfactory performance. The dispersion of small business loans throughout the assessment area is reasonable and reflects no

conspicuous gaps in lending. Lending distributions were as follows: 13 percent in moderate-income tracts, 60 percent in middle-income tracts, and 15 percent in upper income tracts.

Although a significant portion of the loans extended were in middle income tracts, this is reasonable given assessment area characteristics, the distribution of businesses, and office locations. In addition to the predominance of middle- and upper-income tracts in the area, according to Dun & Bradstreet, 17 percent of businesses are in moderate-income tracts, 48 percent in middle-income tracts, and 36 percent in upper-income tracts. As seen below, these proportions are similar to data from the 1990 census. Furthermore, both of Pacific Liberty's branch offices are in upper-income areas and not in close proximity to moderate-income tracts which makes marketing efforts more challenging.

Census Tract Income Category	1990 Census Data		2000 Census Data	
	Bank Loans	Business Concentration	Bank Loans	Business Concentration
Low	0.0%	0.0%	0.0%	0.0%
Moderate	13.3%	16.6%	11.8%	16.5%
Middle	63.3%	41.5%	52.9%	47.7%
Upper	3.3%	30.2%	35.3%	35.8%
Unknown	20.0%	11.7%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%

Response to Complaints

No CRA-related complaints were received during this exam period by the bank.

Compliance with Fair Lending Laws and Regulations

Pacific Liberty is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were identified during this examination.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

Block numbering area (“BNA”): Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

Census tract: Small subdivisions 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. They 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: Affordable 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,

Consumer loan: A loan 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 of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

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 review: Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

Geography: A census tract or a block numbering area delineated by the U.S. 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 (e.g., approved, denied, and withdrawn).

Home mortgage loans: Include 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.

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.

Limited review: Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

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 lenders in the MSA/assessment area.

Metropolitan area: Any primary metropolitan statistical area (PMSA), metropolitan statistical area (MSA), or consolidated metropolitan area (CMSA), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

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.

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.

Multifamily: Refers to a residential structure that contains five or more units.

Optional loans: Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes 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.

Small loans to business: A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

Small loans to farms: 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 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

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.

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.