

PUBLIC DISCLOSURE

November 2, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Bank of Commerce

36063

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San Diego, California 92101-3311**

Federal Reserve Bank of San Francisco

101 Market Street

San Francisco, California 94105

Note: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

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

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **Bank of Commerce** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **November 2, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

INSTITUTION

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

Bank of Commerce's overall CRA performance is satisfactory based upon its lending, investment, and service activities. Small business lending is the bank's core lending activity and lending levels and lending patterns are consistent with assessment area credit needs. Consistent with its focus on Small Business Administration (SBA) lending, the bank has appropriately addressed the needs of businesses of different sizes and those in low- and moderate-income (LMI) areas. Its stronger direct lending levels are balanced by a lower level of qualified community development lending. Qualified community development investment activity also is adequate given the bank's resources and opportunities available within its assessment areas. Conversely, the bank demonstrated an outstanding level of qualified community development services, particularly in its San Diego assessment area.

PERFORMANCE LEVELS	BANK OF COMMERCE		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			X
High Satisfactory	X		
Low Satisfactory		X	
Needs to Improve			
Substantial Noncompliance			

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

DESCRIPTION OF INSTITUTION

Bank of Commerce is headquartered in San Diego, California and operates 10 full-service branches and 19 loan production offices (LPO). The LPOs focus on and offer only SBA or homeowners associations (HOA) loans. Seven branches (Carlsbad, Del Mar, Golden Triangle, La Jolla, San Diego Main, Scripps Ranch, and Temecula) and one of the LPOs offering only SBA loans (San Diego) are located in San Diego County. Three branches (Palm Desert, Orange, and Vista) and three LPOs (Glendale, Orange, and Vista) are located in the Los Angeles metropolitan area. Two of these LPOs (Glendale and Orange) offer SBA and HOA loans, while the Vista LPO offers only HOA loans. The remaining 15 LPOs are located in Arizona, Central and Northern California, Colorado, Nevada, Oregon, Texas, Utah, and Washington. In May 1998, Bank of Commerce acquired the retail oriented Rancho Vista National Bank (RVNB). The three branches obtained from the RVNB acquisition resulted in a significant increase in the bank's presence in the Los Angeles assessment area and the integration of consumer credit products into Bank of Commerce's product lines, albeit on a limited basis.

The bank's focus is serving the needs of small- to medium-sized businesses primarily through SBA lending. In 1997, the bank was ranked number one among all banks in the United States in SBA loan production. In addition, the bank is an SBA designated "Preferred Lender" allowing it to originate certain SBA loans without prior approval from the SBA. As a preferred lender, the bank enjoys a distinct advantage in approval time over other SBA lenders and utilizes that advantage as a marketing incentive. A significant majority of the bank's small business loan originations come from brokered SBA applications with commercial real estate offered as collateral. As of the September 30, 1998 Consolidated Reports of Condition and Income, the following distribution of the bank's loan portfolio illustrates its commercial lending focus as over 82 percent of the bank's lending is in this category with the substantial majority secured by commercial real estate:

Loan Type	Dollar Amount (\$000)	Percent of Total Loans
Non-Farm Non-Residential Real Estate	\$354,744	73.1%
Construction / Residential Real Estate	\$ 81,673	16.8%
Commercial and Industrial	\$ 44,419	9.2%
Credit Card and Other Consumer	\$ 4,227	0.9%
Other Loans	\$ 232	0%

The bank has delineated two assessment areas:

- San Diego - consisting of San Diego County in its entirety; and
- Los Angeles - consisting of Orange and Riverside Counties in their entirety and portions of Los Angeles County.

The assessment areas consist of entire geographies, do not reflect illegal discrimination, and do not arbitrarily exclude any low- or moderate-income geographies that the bank would reasonably be expected to serve.

As of the date of this examination, there were no financial constraints or legal impediments that would inhibit the bank from lending throughout its assessment areas consistent with its size, financial resources, and local economic conditions.

At its previous CRA examination, the bank received an outstanding performance rating. The Federal Deposit Insurance Corporation conducted that examination under the former regulation and evaluation criteria.

SCOPE OF EXAMINATION

The bank's performance under the Community Reinvestment Act was evaluated based on its record of lending, investments, and services during the period of January 1, 1997, to June 30, 1998. Under the regulation, the bank is required to collect data on home mortgage, small-business, small-farm, and community development loans extended or purchased. These data are for use in the assessment of its performance under the lending test. In addition to the data collected on those loans, the regulation allows the bank to submit data on other loans for consideration under the lending test. Exercising this prerogative, Bank of Commerce submitted data on consumer-purpose loans (auto, personal, and home equity) for this examination. Below is a breakdown of the loan sample used for the lending test:

Loan Product	Number of Loans		Dollar Amount (\$000)	
Small Business	605	75.7%	\$175,107	95%
Consumer	194	24.3%	\$ 9,213	5%
Total	799		\$184,320	

As previously stated, the bank's target market is SBA lending to small- to medium-sized businesses. Consumer lending is primarily offered as an accommodation to the principals of its business borrowers. Although consumer lending products became more widely available in conjunction with the RVNB acquisition, this acquisition occurred in May 1998 and has not yet had any significant impact on the bank's overall level of consumer lending. Therefore, in light of the bank's target market and the predominance of business purpose loans, more weight was given to the bank's record of business lending in determining its overall performance under the lending test.

A full scope review was conducted for both of the bank's assessment areas. Seven of the bank's ten branch offices are located in the San Diego assessment area. The Los Angeles assessment area contains three branches, including the Palm Desert branch that opened in 1997 and the Orange branch that existed as a Bank of Commerce branch for only one month during the period under review. Given the newness of the Los Angeles assessment area, the performance results in the San Diego assessment area are weighted more heavily in determining the bank's overall assessment at this examination.

OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Bank of Commerce's overall performance under the lending test is high satisfactory. Lending levels and an average loan-to-deposit ratio of approximately 80 percent during the review period suggest that the bank is actively lending in a manner consistent with its size and resources. The bank extended a majority of its loans inside the two assessment areas and had a reasonable distribution of those loans throughout geographies of different income levels and to businesses of different sizes. Conversely, the bank demonstrated a low level of community development lending in both of its assessment areas. The use of innovative or flexible lending practices did contribute somewhat to the bank's overall high satisfactory performance.

Assessment Area Concentration

As illustrated in the table below, the bank extended a majority of loans inside of its assessment areas during the sample period.

Loan Type	Number Inside		Dollar Volume Inside (\$000)	
Small Business	474	78%	\$120,709	69%
Consumer	194	100%	\$ 9,213	100%

The bank's record of small business and consumer lending within its assessment areas is reasonable given the large size of its assessment areas and the fact that its level of small business lending is significantly greater than its level of consumer lending. Consumer loan applications are generated from the bank's branches, all of which are located inside the two assessment areas, suggesting that more applications would originate inside the assessment area. Conversely, small business loan applications are generated at both branch offices and LPOs, half of which are located outside of the bank's assessment areas.

Lending Distribution by Geography

The bank's record of business and consumer lending in census tracts of different income levels shows a reasonable penetration in each income category throughout the assessment areas. The concentration of small business loans compares favorably to the concentration of small businesses in the assessment areas and is reflective of the bank's business strategy to focus primarily on SBA loans secured by commercial real estate. Consumer lending patterns are not reflective of assessment area geographies, but are considered in light of the bank's commercial business strategy and, thus, its limited ability to meet consumer credit needs. In that regard, these lending patterns did not significantly detract from an otherwise favorable record of lending to small businesses.

Lending Distribution by Business Size and Borrower Income

The bank's lending record reflects a good penetration among businesses of different sizes. A majority of both the number and the dollar volume of small business loans extended during the period were made to businesses having gross annual revenues less than or equal to \$1 million. In addition, the bank demonstrated an adequate record of extending consumer loans to low- and moderate-income borrowers when considered in light of the bank's business strategies previously mentioned.

Community Development Lending

Bank of Commerce made a low level of community development loans during the review period. The bank's community development lending activities consisted of one loan to a non-profit organization providing community services to low-income individuals and participation in the loan pools of two community development corporations. Although this level of lending is low, the two loan pools provide the types of small business lending that address the most critical needs of small businesses in the assessment areas.

Innovative and Flexible Loan Practices

The bank generally makes limited use of innovative or flexible lending practices to address the credit needs of low- and moderate-income individuals or geographies in its assessment areas; however, two loan programs have been implemented that incorporate flexible loan practices.

One program provides accounts receivable financing at a higher than average discount rate of 80 percent, thereby providing financing to small businesses that otherwise would not qualify for traditional accounts receivable financing. Another program offers interest free loans to low-income pregnant women for prenatal care. Both the Fannie Mae Foundation and the Department of Health and Human Services have recognized this program for reaching low-income individuals who cannot afford appropriate medical care.

INVESTMENT TEST

Overall performance under the investment test is low satisfactory based on an adequate level of community development investment activity. The bank's record under this test, while neither innovative nor otherwise exhibiting a leadership role, has adequately addressed identified community development needs in the bank's assessment area.

Investment and Grant Activity

The bank has made an adequate level of qualified community development investments and grants. During the period of review, these investments and grants totaled over \$1.8 million or 1.1 percent of the bank's total investment portfolio and address the supply of affordable housing, the support of community development services, and the provision of credit to small businesses.

Responsiveness to Credit and Community Development Needs

The bank's investment and grant activity exhibits adequate responsiveness to credit and economic development needs in its assessment areas. Through the purchase of a security backed by mortgages to low- and moderate-income individuals, the bank promotes the availability of credit to such individuals in its assessment areas. Additionally, equity investments in two community development corporations help address the credit needs of small businesses. Generally, these are small businesses without access to traditional bank credit due to insufficient collateral, credit history, or time in business.

Responsiveness to Community Development Initiatives

The bank has not used innovative or complex investments to support community development initiatives. Nevertheless, the investments funded do address acknowledged credit needs in the bank's assessment areas.

SERVICE TEST

The bank's overall performance under the service test is outstanding based upon its provision of retail banking and community development services.

Retail Banking Services

The bank's delivery systems are reasonably accessible to essentially all portions of its assessment areas. During the period of review no branches were closed and three were opened through the acquisition of RVNB. Nine of the bank's ten branches are either located in or adjacent to low- or moderate-income census tracts. All branches are full service branches offering all of the bank's products and services; therefore, the availability of products and services does not vary by location.

Community Development Services

The bank provides a commendable level of community development services. Community development services targeted to low- and moderate- income individuals or geographies were primarily delivered through board members and bank employees providing financially related technical assistance. These services occurred through board memberships, committee memberships, participation in educational seminars on small business financing, money and budgeting, and affordable deposit products and other activities at community development organizations.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

There were no violations of the substantive provisions of anti-discrimination laws and regulations noted at this examination. The bank has developed policies, procedures, and training programs designed to ensure non-discriminatory lending practices.

ASSESSMENT AREA SUMMARIES

SAN DIEGO ASSESSMENT AREA

DESCRIPTION OF OPERATIONS IN THE SAN DIEGO ASSESSMENT AREA

The San Diego assessment area consists of San Diego County in its entirety, which constitutes the entire San Diego Metropolitan Statistical Area (MSA). As of the 1990 Census, the population of the San Diego MSA totaled 2.5 million or 8.4 percent of the state population. The average median family income for the MSA is \$39,798, similar to the state median of \$40,559. There are 445 census tracts in the MSA with the following distribution: 39 low-income (8.8 percent), 96 moderate-income (21.6 percent), 193 middle-income (43.4 percent), and 117 upper-income (26.3 percent). Of the total population, 31 percent resides in either low- or moderate-income census tracts.

Of the 605,144 households that are families in San Diego County, 19.9 percent are low-income, 18.7 percent are moderate-income, 22.3 percent are middle-income and 39.1 percent are upper-income. The distribution of families among the four income types of census tracts is illustrated below:

Income Level of Census Tract	% of Families in Assessment Area	% of Low-Income Families	% of Moderate-Income Families	% of Middle-Income Families	% of Upper-Income Families
Low	5.3%	15.6%	5.8%	3.2%	1%
Moderate	21.4%	36.8%	30.9%	20.8%	9.4%
Middle	45%	37.6%	47.7%	53%	43%
Upper	28.3%	10%	15.6%	23%	46.6%

As shown in the table, relatively few families reside in low-income census tracts, and the majority of both low- and moderate-income families reside in moderate- and middle-income tracts. In addition, approximately eight percent of all families are living below the poverty level, with 22.8 percent in low-income tracts, 37.5 percent in moderate-income tracts, 31.6 percent in middle-income tracts, and 8.1 percent in upper-income tracts. These figures suggest that consumer lending opportunities are more limited in low-income census tracts.

Business establishments total 40,226 in San Diego County, and small businesses constitute a majority of the businesses in the county with 88.5 percent of all businesses having gross annual revenues less than \$1 million.¹ These figures and comments made by community contacts indicate that the primary credit need among these businesses is financing in amounts of

¹ 1997 Dun and Bradstreet Business Concentration Data

\$100,000 or less. In addition, financing for businesses that are new or without track records is a significant credit need.

Dun & Bradstreet data, which identifies the number of businesses in each census tract, show that the highest concentration of small businesses located within the assessment area are in middle-income census tracts. In addition, aggregate CRA data representing the lending patterns of all depository institutions subject to the CRA data collection and reporting requirements (CRA Data Reporters) that made small business loans in the assessment area mirrors the Dun & Bradstreet information. Moreover, the aggregate data suggest that geographies within the San Diego assessment area with any significant concentration of small businesses are saturated with small business lending activity. This information, combined with the Dun & Bradstreet data, indicate that fewer lending opportunities exist in these census tracts due to the high level of competition.

San Diego County's economy is strong and has been improving over the last two years. The unemployment rate remains low, declining from 4.0 percent in October 1997 to 3.6 percent in October 1998, and is significantly below the state rate of 5.6 percent. Information from the Bureau of Labor Statistics for the San Diego MSA suggests a strong economy due to an increase in the establishment of new businesses. In 1996, San Diego County's largest employment category by industry is services, comprising 32 percent of the employed population. Other significant employment industries are retail and wholesale trade, government, and manufacturing. The services industry also had the largest employment growth (12.6 percent) between 1992 and 1996.²

Bank of Commerce is the largest locally headquartered bank in San Diego County. The bank's corporate and administrative offices have been situated in the county since the bank was founded in 1975. In addition, seven of the bank's ten branches are located in the county. While the bank does have a significant presence in San Diego County, its market share of the total deposits in the county is only 1.7 percent.³

LENDING TEST

Bank of Commerce's lending activity in the San Diego assessment area reflects an adequate responsiveness to the credit needs of this community. Although the bank demonstrated a limited level of community development lending, small business loan penetrations among assessment area geographies and to businesses of different sizes are reasonable. Lending activity in this assessment area during the sample period is illustrated below.

² Regional Economic Information System (REIS)

³ Federal Deposit Insurance Corporation (FDIC), Summary of Deposits, Offices and Deposits of all FDIC-Insured Institutions with offices located in San Diego County, California, June 30, 1997

Loan Product	Number of Loans		Dollar Volume (\$000)	
Small Business	266	65%	\$47,423	84%
Consumer	143	35%	\$8,785	16%
Total	409		\$56,208	

Lending Distribution by Geography

Small Business Lending

The geographic distribution of small business loans reflects a reasonable penetration throughout the bank's assessment area. As reflected in the table below, the bank's level of small business lending compares favorably to both the distribution of businesses and the distribution of census tracts. The bank's record of lending is particularly strong in moderate-income census tracts. As previously stated, there are more lending opportunities in these tracts than in low-income areas.

Small Business Loan Distributions	Low-Income	Moderate-Income	Middle-Income	Upper-Income
Number of Loans	4%	34%	33%	29%
Dollar Amount of Loans	3%	33%	37%	28%
Business Concentrations	3.8%	24.1%	44.7%	27.4%
Census Tract Distribution	8.8%	21.6%	43.4%	26.3%

As shown above, the bank has a good record of lending in low- and moderate-income census tracts. A further review of these lending patterns shows that the bank's loans are generally concentrated in the areas surrounding either branch or LPO locations, with the bank lending in approximately 18 percent of the 445 geographies in the assessment area. Lending patterns are also consistent with the bank's stated business strategy of focusing on commercial real estate secured loans, as census tracts with these types of lending opportunities have a higher loan penetration than do other census tracts near the bank's locations that do not present these opportunities. Given these factors, the penetration rate and distribution of lending near the bank's business locations is reasonable.

Consumer Lending

The geographic distribution of consumer loans reflects a low penetration throughout the bank's assessment area when compared to the distribution of census tracts and the distribution of families. However, as previously stated, the bank has routinely extended consumer loans only since the acquisition of RVNB which occurred only one month before the end of this review period. Prior to the acquisition, the bank generally extended consumer loans only as an accommodation to its business borrowers. Additionally, the low level of residents in low-income census tracts limits the lending opportunities in these areas. These contextual factors help to explain why there is little consumer loan penetration in LMI geographies. Also, they

explain why consumer loans were not a major focus of this examination and were not heavily weighted in the lending test evaluation.

The following table illustrates the geographic distribution of consumer loans as compared to the distribution of geographies and the composition of families in the assessment area.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Number of Loans	1%	9%	22%	67%
Dollar Amount of Loans	0%	8%	17%	75%
Distribution of Geographies	8.8%	21.6%	43.4%	26.3%
Distribution of Families	5.3%	21.4%	45%	28.2%

Given performance contextual information regarding the bank’s business strategy with respect to consumer loans and based on the distribution of low- and moderate-income census tracts in the assessment area, the bank’s record of lending in low- and moderate-income geographies is adequate.

Lending Distribution by Business Size and Borrower Income

Small Business Loans

The bank’s distribution of small business loans reflects an adequate penetration among businesses of different sizes. Of the 266 small business loans extended in this assessment area, 124, or 46.6 percent, were to business with gross annual revenues of \$1 million or less. This figure is higher than the aggregate market of all CRA Data Reporters (37.9 percent), but much lower than the 88 percent concentration of small businesses in the assessment area. Addressing the stated need of small dollar loans to small businesses, 54 percent of the bank’s loans to small businesses were in amounts less than \$100,000. As noted above, the bank’s business focus is on SBA lending secured by commercial real estate. These loans tend to reflect higher loan amounts due to real estate values and are often to larger businesses. In light of the bank’s business focus and apparent competitive nature of small business lending in the assessment area, its record of lending to small businesses is reasonable and shows that the bank is adequately addressing the credit needs of small businesses.

Consumer Loans

The distribution of consumer loans to borrowers of different income levels is illustrated in the table below:

		Low-Income		Moderate-Income		Middle-Income		Upper-Income	
Distribution of Families		19.9%		18.7%		22.3%		39.1%	
Consumer Loans	Number	15	10%	14	10%	16	11%	98	69%
	Dollar Amount (\$000)	\$642	7%	\$189	2%	\$1,791	20%	\$6,163	70%

As evident from the table, the substantial majority of the bank's borrowers are upper-income and the lending distributions do not compare favorably to the distribution of families in the assessment area. Similar to the considerations given to the geographic distribution of loans, the borrower distribution of the bank's consumer loans is impacted by the length of time that the bank has been involved in consumer lending on other than an accommodation basis for its business customers. Given the bank's business strategy during this review period, the distribution of consumer lending is adequate and receives relatively little weight in this assessment.

Community Development Lending

The bank's level of community development lending is low based upon the opportunities that exist and the capacity of the bank to participate in these activities. During the review period, the bank invested in a community development corporation (CDC) that provides financing to San Diego area small businesses located in low- and moderate-income areas that could not normally qualify for conventional bank financing. The bank's involvement with the CDC includes participation in its loan pool in the amount of \$20,000. This amount equates to a 2 percent share of the total loan pool for which the bank receives consideration for its pro-rata share of all loans extended. Of the 54 loans generated from the loan pool totaling approximately \$1.9 million, the bank's pro-rata share is \$39,839. The bank also extended a \$200,000 loan to a non-profit organization that includes among its primary activities running a food bank and providing transitional housing for low-income individuals.

INVESTMENT TEST

The bank has made an adequate level of qualified community development investments. Bank wide qualified investments are concentrated in the San Diego assessment area and totaled \$1.8 million or 1.1 percent of the total investment portfolio. The bulk of that \$1.8 million consists of a \$1.1 million mortgage backed security targeted to low- and moderate-income individuals and geographies, and the donation of a building valued at \$537,000 to a San Diego based non-profit organization providing community development services.

Other investments include a \$50,000 deposit and a \$10,000 stock purchase in a community development financial institution in San Diego. A \$6,500 equity investment was also made in a San Diego based community development corporation providing small business loans in LMI geographies. In addition to the equity investment, the bank also participates in the CDC's loan pool. The remaining qualified investments were in the form of donations and grants to various organizations promoting community development services, economic development or affordable housing for LMI individuals.

The bank's qualified investments are not considered particularly innovative or complex but are adequately responsive to credit and community development needs. In particular, the equity investments in the community development corporations help address the credit needs of small businesses. Generally, these are businesses without access to traditional bank credit due to insufficient collateral, credit history, or time in business.

SERVICE TEST

Retail Banking Services

Delivery systems are reasonably accessible to geographies and individuals of different income levels in this assessment area. The main system for delivering retail-banking services is through the branch network. As of September 30, 1998, the bank operated seven full-service branches in this assessment area. Of the seven branches, one is located in a moderate-income census tract and four are located in low-income census tracts. The remaining two branches are located in census tracts that are adjacent to either low- or moderate-income census tracts.

To the extent changes have been made, the bank's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- or moderate-income areas. Two of the three branches acquired through the May 1998 merger with RVNB were located in San Diego County. One of these RVNB's branches was located in moderate-income census tracts and one was located adjacent to a moderate-income census tract. Since the last CRA examination, there have been no branch closings in San Diego County.

Services do not vary in a way that inconveniences the assessment area, particularly LMI geographies or individuals. Each branch offers a full range of deposit, consumer and commercial loan products. All branches are open Monday through Thursday between 8:50 a.m. and 5:10 p.m., with extended hours on Fridays between 8:50 a.m. and 6:10 p.m. Alternative delivery systems are available in the form of ATM machines/cards, direct mail banking, loan production offices, personal computer banking, and telephone banking.

Community Development Services

The bank provides an exceptional level of community development services in San Diego County, acting in a leadership capacity. Community development services targeted to LMI individuals or LMI geographies were delivered through board members and bank employees providing financially related technical assistance. These services occurred through board memberships, committee memberships, participation in educational seminars on small business

financing, money and budgeting, and affordable deposit products and other activities at community development organizations.

The bank's directors and employees were board members on eight community development organizations. In particular, the President is the Chairman of the Center City Development Corporation. This organization is responsible for the planning and redevelopment of Downtown San Diego, an area consisting primarily of both low- and moderate-income geographies. The president has been involved as a board member in this organization for nearly 20 years. Other board memberships include small business development corporations involved in small business financing.

Seven bank employees are members of loan committees for community development organizations involved in economic development, providing small business financing. Nine employees participated in other types of committees for community development organizations. One example is participation on a committee to develop an Asset-Liability Management Policy for a local community development financial institution.

Bank employees and board members participated in ten small business lending seminars. Other community development activities included the creation and participation in a "Welfare to Work" program and participation in fundraising and financial education seminars with community development organizations.

LOS ANGELES ASSESSMENT AREA

DESCRIPTION OF OPERATIONS IN LOS ANGELES ASSESSMENT AREA

This assessment area consists of Orange and Riverside counties in their entirety and portions of Los Angeles County. These counties are part of the Los Angeles Consolidated Metropolitan Statistical Area. The population of this assessment area totals 12.0 million or 40.5 percent of the state population. The Los Angeles County area constitutes the majority (73.6 percent) of the assessment area's population. The average median family income for the assessment area is \$40,994, similar to the state median of \$40,559.

The assessment area encompasses 2,207 census tracts with the following distribution: 190 low-income (8.6 percent), 531 moderate-income (24.1 percent), 791 middle-income (35.8 percent), and 695 upper-income (31.5 percent). Of the total population, 35 percent reside in either low- or moderate-income tracts.

Of the 2,825,856 households that are families in the assessment area, 22.0 percent are low-income, 17.5 percent are moderate-income, 20.7 percent are middle-income and 39.8 percent are upper-income. The geographic distribution of families among the four income types of census tracts is illustrated below:

Income Level of Census Tract	% of Families in Assessment Area	% of Low-Income Families	% of Moderate-Income Families	% of Middle-Income Families	% of Upper-Income Families
Low	6.1%	15.9%	7.6%	3.8%	1.3%
Moderate	24.6%	40.5%	34.6%	24.6%	11.3%
Middle	37%	31.8%	39.6%	44.9%	34.7%
Upper	32.3%	11.8%	18.2%	26.7%	52.7%

As shown in the table, relatively few families reside in low-income census tracts, and the majority of both low- and moderate-income families reside in moderate- and middle-income tracts. In addition, approximately ten percent of all families are living below the poverty level, with 20.4 percent in low-income tracts, 43.65 percent in moderate-income tracts, 27 percent in middle-income tracts, and 9 percent in upper-income tracts. These figures suggest that consumer lending opportunities are more limited in low-income census tracts.

Business establishments total 206,769 in the assessment area and small businesses constitute a majority of the businesses with 86.7 percent of all businesses having gross annual revenues less than \$1 million.⁴ These figures and comments made by community contacts indicate that the primary credit need among these businesses is financing in amounts of \$100,000 or less. In addition, financing for businesses that are new or without track records is a significant credit need.

⁴ 1997 Dun and Bradstreet Business Concentration Data

Dun & Bradstreet data, which identifies the number of businesses in each census tract, shows that the highest concentration of small businesses located within the assessment area are in middle- and upper-income census tracts. Moreover, the data shows very low small business concentrations in low-income census tracts. Since the bank's primary business focus is small business lending, the absence of small businesses in significant numbers within low-income geographies translates to fewer lending opportunities within those areas.

The assessment area's economy is generally strong and has been improving over the last two years, but varies per county. Specifically, the unemployment rate is lower and the economy is stronger in Orange County than in either Los Angeles or Riverside Counties. In Orange County, the unemployment rate has declined from 3.2 percent in September 1997 to 2.9 percent in September 1998. In Riverside County, the unemployment rate remains high at 7.0 percent in October 1998 declining from 7.8 percent in October 1997. The unemployment rate in Los Angeles County also remained high at 6.3 percent in October 1997 and 6.4 percent in October 1998. In comparison, Los Angeles and Riverside Counties have significantly higher unemployment rate than the October 1998 State rate of 5.6 percent. In 1996, the assessment area's largest employment category by industry is services, comprising 31 percent of the employed population. Other significant employment industries are retail and wholesale trade, manufacturing and government. The services and the transportation and utilities industries had the largest employment growth between 1992 and 1996.⁵

Bank of Commerce has a small and recent presence in this assessment area. Only three of the bank's ten branches are located in the assessment area. Two of these branches are located in Riverside County and one in Orange County. One Riverside Branch was recently opened in 1997 and the Orange County branch was acquired through the 1998 merger with Rancho Vista National Bank. In addition, there is one LPO office but no retail branches in Los Angeles County.

LENDING TEST

Bank of Commerce's lending activity in the Los Angeles assessment area reflects an adequate responsiveness to the credit needs of this community. Although the bank demonstrated a limited level of community development lending, small business loan penetrations among assessment area geographies and to businesses of different sizes are reasonable. Lending activity in this assessment area during the sample period is illustrated below.

Loan Product	Number of Loans		Dollar Volume (\$000)	
Small Business	208	80%	\$73,286	99%
Consumer	51	20%	\$428	1%
Total	259		\$73,714	

⁵ Regional Economic Information System (REIS)

Lending Distribution by Geography

Small Business Lending

The geographic distribution of small business loans reflects a reasonable penetration throughout the bank's assessment area. As reflected in the table below, the bank's level of small business lending compares favorably to both the distribution of businesses and the distribution of census tracts. The bank's record of lending is particularly strong in low- and moderate-income census tracts.

Small Business Loan Distributions	Low-Income	Moderate-Income	Middle-Income	Upper-Income
Number of Loans	13%	28%	32%	27%
Dollar Amount of Loans	15%	26%	32%	27%
Business Concentrations	7.7%	22.5%	37.5%	32.3%
Census Tract Distribution	8.6%	24.1%	35.8%	31.5%

As shown above, the bank has a good record of lending in low- and moderate-income census tracts. A further review of these lending patterns shows that the bank's loans are generally concentrated in the areas surrounding either branch or LPO locations, with the bank lending in approximately six percent of the 2,196 geographies in the assessment area. Due to the large geographic size of the assessment area in comparison to the bank's presence, the six percent penetration rate is reasonable. Lending patterns are also consistent with the bank's stated business strategy of focusing on commercial real estate secured loans, as census tracts with these types of lending opportunities have a higher loan penetration than do other census tracts near the bank's locations that do not present these opportunities. Given these factors, the penetration rate and distribution of lending near the bank's business locations is reasonable.

Consumer Loans

The bank has routinely extended consumer loans only since the acquisition of RVNB. That acquisition occurred one month before the end of this review period. Prior to the acquisition, the bank generally extended consumer loans only as an accommodation to its business borrowers. Also, prior to the acquisition, the bank had a limited presence in the Los Angeles assessment area, a very large geographic area. These contextual factors help to explain why there is no consumer loan penetration in LMI geographies. Also, they explain why consumer loans were not a major focus of this examination and why the bank's performance in the Los Angeles assessment area was not heavily weighted under this review period.

The following table illustrates the geographic distribution of consumer loans as compared to the distribution of geographies and the composition of families in the assessment area.

		Low- Income	Moderate- Income	Middle- Income	Upper- Income
Distribution of Geographies		8.6%	24.1%	35.8%	31.5%
Distribution of Families		6.1%	24.6%	37%	32.3%
Consumer Loans	Number	0%	0%	41%	59%
	Dollar Amount	0%	0%	24%	76%

Given the distribution of LMI tracts in the assessment area, the bank’s business focus prior to the RVNB acquisition, and the relatively short time period under the scope of this review in which consumer loans were generally available, the bank’s record of lending in low- and moderate-income geographies does not adversely impact its lending record in this assessment area.

Lending Distribution by Business Size and Borrower Income

Small Business Loans

The bank’s distribution of small business loans reflects a reasonable penetration among businesses of different sizes. Of the 208 small business loans extended in this assessment area, 139, or 66.8 percent, were to business with gross annual revenues of \$1 million or less, showing a very good responsiveness to small businesses. This figure is higher than the aggregate market of all CRA Data Reporters (37 percent), but lower than the 86.7 percent concentration of small businesses in the assessment area. With regard to the stated need of small dollar loans to small businesses, only 12.9 percent of the bank’s loans to small businesses were in amounts less than \$100,000. In this area, the bank’s record of lending to small businesses is reasonable when consideration is given to the fact that the bank’s business focus is on SBA lending secured by commercial real estate. These loans tend to reflect higher loan amounts due to real estate values and are often to larger businesses.

Given the bank’s target market of serving small- and medium-sized businesses in its assessment area, this loan distribution shows that the bank is adequately addressing the lending needs of small businesses.

Consumer Loans

The distribution of consumer loans to borrowers of different income levels is illustrated in the table below.

		Low		Moderate		Middle		Upper	
Distribution of Families		22%		17.5%		20.7%		39.8%	
Consumer	Number	4	8%	5	10%	10	20%	32	63%
	Dollar (\$000)	\$10	2%	\$6	1%	\$14	3%	\$398	93%

As evident from the table, the substantial majority of the bank's borrowers are upper-income and the lending distributions do not compare favorably to the distribution of families in the assessment area. Similar to the considerations given to the geographic distribution of loans, the borrower distribution of the bank's consumer loans is impacted by the length of time that the bank has been involved in consumer lending on other than an accommodation basis for its business customers and the length of time that the bank has had a presence in the assessment area. Given the bank's business strategy during this review period, the distribution of consumer lending is adequate and receives relatively little weight in this assessment.

Community Development Lending

The bank's one community development loan in this assessment area consisted of a renewal of a \$15,000 commitment in the loan pool of a community development corporation. The purpose of the CDC is to provide financing to small businesses in LMI areas that could not normally gain access to conventional bank financing. The bank is one of 16 founding members and its commitment comprises three percent of the \$450,000 loan pool. Since its inception in 1996 through September 1997, the loan pool funded four loans totaling \$169,000 with the bank's pro-rata share amounting to approximately \$5,070.

INVESTMENT TEST

The bank's investment activity in the Los Angeles Assessment Area is very limited and consists of a \$5,000 equity investment in a community development corporation addressing the credit needs of small businesses and a \$1,000 grant to a community development organization providing community services.

SERVICE TEST

Retail Banking Services

Delivery systems are reasonably accessible to geographies and individuals of different income levels in the Los Angeles assessment area. The main system for delivering retail-

banking services is through the branch network. As of September 30, 1998, the bank operated three full-service branches. Of the three branches, two are located in Riverside County and one is located in Orange County. There are no branches in Los Angeles County. One of the three branches is located in a moderate-income census tract. Another one of the three branches is located adjacent to a moderate-income census tract.

To the extent changes have been made, the bank's record of opening and closing branches has improved the accessibility of its delivery systems, particularly in low- or moderate-income assessment areas. One of the three branches was acquired through the May 1998 merger with RVNB. This former RVNB branch is located in a moderate-income census tract. Additionally, one new branch was opened in Palm Desert in Riverside County during 1997. This new branch is adjacent to a moderate-income census tract. Since the last CRA examination, there have been no branch closings in the Los Angeles assessment area.

Services do not vary in a way that inconvenience portions of the assessment area, particularly LMI geographies and LMI individuals. Each branch offers a full range of deposit and commercial and consumer loan products. All branches are open Monday through Thursday from 8:50 a.m. to 5:10 p.m., with extended hours on Fridays from 8:50 a.m. to 6:10 p.m. Alternative delivery systems are available in the form of ATM machines/cards, direct mail banking, loan production offices, personal computer banking, and telephone banking.

Community Development Services

The bank provides a limited level of community development services in the Los Angeles assessment area. The bank's one community development service consisted of a bank employee providing expertise in the development of an Entrepreneur Outreach Center in a low- and moderate-income neighborhood.

GLOSSARY OF FREQUENTLY USED TERMS

Area Median Income (Median Income)	The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.
Assessment Area	A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).
Community Development	(1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals. (2) Community services targeted to low- or moderate-income individuals. (3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs. (4) Activities that revitalize or stabilize low- or moderate- income geographies.
Community Development Loan	A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank: (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

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

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