

PUBLIC DISCLOSURE

April 26, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Millennium Bank
62763
180 Sansome Street
San Francisco, California 94104

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.

TABLE OF CONTENTS

I.	General Information	3
II.	Institution Rating	3
III.	Performance Context	
	A. Description of Institution	4
	B. Description of Assessment Area	5
IV.	Conclusions with Respect to Performance Criteria	
	A. Loan-to-Deposit Ratio	7
	B. Lending in Assessment Area	8
	C. Lending By Business Revenue	8
	D. Geographic Distribution of Loans	9
	E. Response to Complaints	10
V.	Compliance With Fair Lending Laws and Regulations	10
VI.	Appendix A – Glossary of Terms	11

GENERAL INFORMATION

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

*This document is an evaluation of the CRA performance for **Millennium Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **April 26, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

Institution's CRA Rating: Millennium Bank is rated satisfactory.

Basis for rating

The bank's overall satisfactory performance is based on its record of adequately addressing the credit needs of small businesses within its community, consistent with its size, resources, and financial condition. The geographic distribution of lending shows a penetration in all types of census tracts. In addition, lending to businesses of different sizes is adequate when compared to assessment area demographics and credit needs. While the bank's loan-to-deposit ratio clearly demonstrates a willingness and ability to lend, a majority of the small business loans reviewed were extended outside of the bank's defined assessment area. Although the level of lending inside the assessment area needs improvement, it is not excessively low, thereby negatively affecting the evaluation of the other lending criterion.

PERFORMANCE CONTEXT

Description of Institution

Millennium Bank, a unit bank, is situated in the heart of San Francisco's financial district. Commencing operations in 1986, the bank originally focused its business strategy on serving the credit needs of East Indian-owned businesses. While the bank has historically met its original mandate, it has moved to provide its services to broader segments of the small business and professional communities. In fact, it has expanded its services to include a wider range of small business owners, specifically through Small Business Administration (SBA) financing. In addition, the bank has a referral arrangement with a lender specializing in long-term commercial real estate financing and credit cards. Adding to this, is the recent introduction of healthcare receivable factoring. Although business lending remains the primary focus of the bank, home equity lines of credit will soon be offered as the bank moves to accommodate the personal credit needs of its existing business clients. The bank does not market any of its loan products or services; rather it relies on referrals from existing professional and business relationships for business development.

Other products and services available at the bank include international trade finance, remittance processing, automated teller machine (ATM)¹ services, and Xpress PC Banking which allows depositors direct access to account information and to initiate checks orders, issue stop payment orders, and create wire transfers. Also, the bank provides its customers with a courier service from as far north as Novato and as far south as San Jose for a nominal service charge.

Since the previous examination on October 28, 1996, total assets grew by 35 percent to \$71 million as of December 31, 1998. Over this time period the bank has experienced similar increases in its commercial lending portfolio. Illustrated below is the distribution of the bank's loan products as of December 31, 1998.

Loan Type	Percent of Total Loans
Commercial/Industrial and Non-Farm Non-Residential Real Estate	97%
Construction Loans	2%
Loans Secured by 1-4 Family Residential Property	1%

As reflected, Millennium Bank is primarily a business lender. Specifically, the bank's target market is small- and medium-sized businesses. Being situated in the center of the financial district, the bank faces strong competition from local branches of statewide and nationwide financial institutions located throughout its assessment area, particularly with regard to business loans. Nevertheless, there are no legal or financial impediments that would prevent

¹ The bank does not house an ATM but allows depositors to use a bank issued ATM card at other financial institutions free of charge.

the bank from meeting the community's credit needs consistent with its size, resources, financial capacity, and local economic conditions. Millennium Bank received, at its last Community Reinvestment Act examination conducted on October 28, 1996, a satisfactory performance rating.

Description of Assessment Area

The bank's assessment area consists of the city and county of San Francisco. San Francisco along with Marin and San Mateo counties comprises the San Francisco Metropolitan Statistical Area (MSA). San Francisco is the commercial and cultural center of the Bay Area, which is the nation's 5th largest metropolitan area with more than six million residents.² Of these residents, 759,300 live in the city and county of San Francisco.³

The San Francisco Bay Area economy is the richest in a state that consistently leads the nation in income. Median household income for the city and county of San Francisco is \$49,360.⁴ As of December 1998, the county's unemployment rate stood at just 2.8 percent, slightly above its neighboring counties of San Mateo's 1.9 percent and Marin's 1.7 percent, but well below the state's 5.4 percent.⁵ There are approximately 521,500 jobs in San Francisco, which represents approximately 17 percent of the Bay Area's three million jobs. Total employment within the city draws heavily on commuters from surrounding communities. The local population is well-educated and culturally varied, providing a highly skilled labor pool. San Francisco is home to 10 Fortune 500 companies, which ranks the city as the 5th largest home of Fortune 500 companies in the nation. In addition, twelve of the Bay Area's top 25 public companies are based in San Francisco.⁶ Based primarily on the level of tourism, services constitute the assessment area's largest employment sector comprising 39 percent of the employed population. Government and government-related enterprises comprise 15 percent of the employed population and retail, trade finance, insurance and real estate each constitute 13 percent.

Of the 152 census tracts in San Francisco, 26 (17 percent) are low-income, 41 (27 percent) are moderate-income, 58 (38 percent) are middle-income, and 27 (18 percent) are upper-income area tracts. Three of the 26 low-income tracts are either a park or vacant piers, while three moderate-income tracts consist of a park or former military base, and therefore have no or very limited lending opportunities for local financial institutions. As a result, these six tracts have been excluded from the overall analysis. Data provided by Dun and Bradstreet (a firm that provides business and credit data) show that the vast majority of businesses operating within the assessment area, 34,799 or 87 percent, have gross annual sales of \$1 million or less.⁷ Moreover, 30 percent of these businesses are situated in low-income areas, with the lowest percentage (19 percent) located within the upper-income geographies. The remaining businesses are evenly

² Source: San Francisco Chamber of Commerce.

³ Source: California State Department of Finance (January 1995).

⁴ Source: 1990 U.S. Census.

⁵ Source: State of California Employment Development Department.

⁶ Source: San Francisco Chamber of Commerce.

⁷ These are considered "small businesses" for purposes of the CRA regulation.

split between moderate- and middle-income tracts. The significant number of businesses located in this entire assessment area provides local financial institutions excellent opportunities for small business lending, regardless of the income level of the census tract. Furthermore, according to a contact within the community, needs exist for business financing throughout the assessment area, primarily in amounts between \$50,000 to \$150,000.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Millennium Bank's performance was evaluated using the small bank CRA examination procedures. The bank's performance was evaluated based on its loan volume in comparison to its deposits (Loan-to-Deposit), its level of lending inside and outside its defined assessment area (Lending in Assessment Area), the distribution of lending to businesses of different sizes (Lending by Business Revenue), and lending dispersion in the geographies within the assessment area (Geographic Distribution of Loans). A fifth criteria, the bank's responsiveness to consumer complaints, was not evaluated because the bank received no CRA-related complaints since the previous examination.

Because the bank is primarily a business lender, small business loans were utilized to assess the bank's CRA performance. Of the 305 small business loans extended from January 1, 1997 through December 31, 1998, a statistical sample of 122 loans was evaluated to determine the level of lending inside and outside the bank's assessment area. Subsequently, the 60 loans originated inside the assessment area were used to evaluate the distribution among the four income-level geographies and to assess the bank's lending by business revenue. By utilizing only those loans extended inside of the bank's assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

Loan-to-Deposit Ratio

Millennium Bank's loan-to-deposit ratio continues to exceed standards for satisfactory performance. The loan-to-deposit ratio is a quick test to determine the bank's level of lending activity. This review is achieved by measuring the bank's net loans against its total deposits over time, with the result being analyzed within the bank's performance context.

For the past nine quarters, the bank's average loan-to-deposit ratio is 76 percent. During the same time period, four banks operating in the same geographic area and having a similar business focus, asset size, and number of branch facilities, have average ratios well below the bank's ratio and range from 50 to 69 percent. In addition, for the same time period, the bank's loan-to-deposit ratio exceeds the state average of 66.4 percent and the national average of 68 percent for the similar size institutions.

In light of the bank's size, coupled with the strong competition from the 277 local branches of statewide and nationwide financial institutions located throughout the assessment area, its loan-to-deposit ratio is more than reasonable.

Lending In Assessment Area

The bank's credit extensions inside and outside of its defined assessment area does not meet standards for satisfactory performance. Table 1-1 reflects the distribution of loans inside and outside the assessment area by number and dollar volume.

Table 1-1

Examination Period	Number of Loans		Dollar Volume of Loans	
	Current	Previous	Current	Previous
Inside	49.2%	47%	41.1%	49.7%
Outside	50.8%	53%	58.9%	50.2%

As demonstrated above, there has been a slight increase in the number of loans extended within the assessment area since the previous examination. Nevertheless, the level of lending within the assessment area continues to be low. Additionally, two of the bank's borrowing arrangements have been structured such that multiple loans are extended to a single borrower. As part of the sample of 122 loans, 46 (38 percent) were extended to these two different entities. One borrower located inside the assessment area received 31 loans during the review period, while the second borrower located outside the assessment area received 15 loans. If the impact of these multiple credit extensions is considered, the percentage of loans extended inside the assessment area falls to 39 percent. Based on the bank's financial condition, capabilities, and local economic conditions, the volume of lending-related activity within its assessment area is not commensurate with the level of opportunity to extend small business loans.

Lending by Business Revenue

The bank's distribution of loans to businesses of different sizes meets standards for a satisfactory performance. In comparing its lending performance to assessment area needs, the bank has made a substantial majority of its loans to small businesses and in smaller dollar amounts. Of the 60 small business loans sampled, 73.3 percent were extended to small businesses (those having gross annual revenues of \$1 million or less). Addressing the stated credit need for loans in amounts between \$50,000 and \$150,000, over 90 percent of the loans to small businesses were for amounts of \$150,000 or less. However, as stated above, 31 of the 60 loans extended inside of the assessment area were to a single borrower. The large number of loans extended were simply due to the way the loan agreement was structured and not truly indicative of the number of small businesses receiving credit. Absent this borrowing arrangement, the bank extended approximately 47 percent of its loans to small businesses, with a similar percentage of these being extended in loan amounts less the \$150,000. Given the bank's target market of small- and medium-sized business, these lending levels are adequately responsive to the needs of local small businesses.

Geographic Distribution of Loans

The bank's geographic distribution of lending meets standards for a satisfactory performance as it reflects a reasonable penetration among the assessment area geographies and does not arbitrarily exclude low- or moderate-income areas. The assessment area is comprised mainly of middle-income geographies followed by moderate-income areas. Table 2-1 portrays the bank's dispersion of small business loans within the various income geographies as compared to assessment area demographics and the activity of other lenders.

Table 2-1

	Low Income	Moderate Income	Middle Income	Upper Income
Number of Small Business Loans - (60 loans)	13.3%	15%	13.3%	58.3%
Dollar Amount (\$000) of Small Business Loans – (\$9,536)	15.9%	35.7%	13.8%	34.6%
Distribution of Businesses - (39,864 businesses)	30%	25%	26%	19%
Aggregate Distribution - Number of Small Business Loans⁸ - (15,538 loans)	28%	26%	25%	21%
Aggregate Distribution – Dollar Amount (\$000) of Small Business Loans - (\$769,226)	33%	24%	20%	24%
Census Tracts in the Assessment Area – (146 tracts)	17%	26%	38%	19%

The data in the table above suggests that the bank's lending levels are not consistent with the distribution of businesses or census tracts in the assessment area, nor does it compare favorably to the other lenders in the market. The bank's lending is predominately in the upper-income census tracts, exceeding the concentration of businesses, aggregate lending activity, and census tract distribution in these areas. However, as previously addressed, of the 35 loans originated in the upper-income geographies, 31 (88.5 percent) were to a single borrower. Additionally, lending patterns do not suggest that the bank is excluding low- and moderate-income areas, nor are there any conspicuous gaps in the bank's lending patterns.

Considering the unique circumstance occurring in the upper-income geographies, the bank's lending is concentrated in the area surrounding its main office, which is situated in a low-income area. Generally, lending levels decrease as the geographical distance to the bank increases, regardless of the tract's income level or concentration of businesses. This dispersion is considered reasonable based on the bank's limited ability to service geographies that are of considerable distance to the bank's only branch. As a result, the bank's geographic distribution of lending is adequately responsive to the credit needs of small businesses located throughout the various income-level geographies in the assessment area.

⁸ Aggregate small business lending is the total number of small business loans extended during 1997 in the area by large financial institutions required to collect and report loan data for CRA purposes.

Response to Complaints

The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints have been received since the previous examination.

Compliance with Fair Lending Laws and Regulations

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

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:
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
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.