

PUBLIC DISCLOSURE

July 6, 2015

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Friendly Hills Bank
RSSD # 3470930**

**16011 East Whittier Boulevard
Whittier, California 90603**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION RATING

Institution's CRA Rating

Friendly Hills Bank is rated "OUTSTANDING"

The following table shows the performance ratings for the lending test.

PERFORMANCE LEVELS	PERFORMANCE TESTS
	Lending Test
Outstanding	X
Satisfactory	
Needs to Improve	
Substantial Noncompliance	

The major factors supporting the institution's rating include:

- A reasonable loan-to-deposit ratio;
- A substantial majority of loans made within the bank's assessment area;
- Excellent geographic distribution of small business loans, with particularly strong penetration in moderate-income census tracts;
- A reasonable dispersion of small business loans to businesses with gross annual revenues of \$1 million or less; and
- Excellent responsiveness to the community development needs of the assessment area, particularly affordable housing development in low- and moderate-income census tracts.

INSTITUTION

Description of Institution

Friendly Hills Bank (FHB) is a community bank headquartered in Whittier, California, with assets of \$120 million as of December 31, 2014. In addition to its main office, the bank has a branch in Santa Fe Springs, California, that houses the lending function. In January 2014, a loan production office (LPO) was opened in Irvine, California.

FHB primarily originates loans to small businesses and professionals in Los Angeles and Orange counties. The bank's loan product offerings include commercial loans, commercial real estate loans, residential real estate loans (for commercial purposes), and home equity lines of credit (HELOCs). Deposit products include checking accounts, savings accounts, and individual retirement accounts.

Exhibit 1 below represents FHB's loan portfolio as stated in the Consolidated Reports of Condition and Income as of December 31, 2014, and reflects the bank's commercial lending focus, including commercial purpose loans secured by residential real estate.

EXHIBIT 1 LOANS AND LEASES AS OF DECEMBER 31, 2014		
Loan Type	\$ ('000s)	%
Commercial/Industrial & Non-Farm Non-Residential Real Estate	33,805	55.5
Secured by 1-4 Family Residential Real Estate	22,351	36.7
Multi-Family Residential Real Estate	4,365	7.2
Construction & Land Development	329	0.5
Consumer Loans & Credit Cards	65	0.1
Total (Gross)	60,915	100.0

FHB did not face any legal or financial impediments during the review period that would have prevented it from helping to meet the credit needs of its assessment area in a manner consistent with its business strategy, size, financial capacity, and local economic conditions. The prior CRA examination, conducted as of April 11, 2011, resulted in a satisfactory rating and was conducted by the Federal Deposit Insurance Corporation (FDIC) using the *Interagency Small Institution CRA Examination Procedures*.

Scope of Examination

FHB's performance was evaluated using the *Interagency Small Institution CRA Examination Procedures*. The evaluation was based on the following performance criteria:

- Loan volume compared to deposits (Loan-to-Deposit Ratio);
- Lending inside versus outside the assessment area (Lending in Assessment Area);
- Dispersion of lending throughout the assessment area (Lending Distribution by Geography); and
- Lending to businesses of different revenue sizes (Lending Distribution by Business Revenue).

The evaluation was based on 126 small business loans originated from January 1, 2013, through December 31, 2014. All 126 loans were used in the evaluation of *Lending in the Assessment Area*. Of those, 121 small business loans extended within the assessment area were used to evaluate the *Lending Distribution by Geography* and *Lending Distribution by Business Revenue* criteria.

At the bank's request, certain loans secured by residential real estate were evaluated as community development activities. The evaluation period for these community development loans was January 1, 2013 through July 6, 2015.

Responsiveness to consumer complaints was not evaluated since the bank did not receive any complaints related to its CRA performance during the review period.

Description of Assessment Area

FHB's assessment area consists of the counties of Los Angeles and Orange in their entirety and comprises the Los Angeles-Long Beach-Santa Ana Metropolitan Statistical Area. The assessment area is bordered by Kern and Ventura counties to the north, San Bernardino and Riverside counties to the east, San Diego County to the south, and the Pacific Ocean to the west. As of 2013, Los Angeles County was home to 10.1 million people, making it the most populated county in the U.S., and Orange County was home to 3.1 million people.¹

FHB has a very small presence and portion of the overall deposit market share in this highly competitive assessment area, ranking 104th among competing institutions within the area. As of June 30, 2014, the assessment area was home to 135 FDIC insured institutions operating 2,507 offices with total deposits of \$404 billion. FHB's two branches in the assessment area had total deposits of \$87.8 million, which accounted for 0.02 percent of the deposit market share.² In 2014, there were 210 small business lenders operating within the assessment area subject to the reporting requirements of CRA. These lenders extended 354,208 small business loans totaling approximately \$11.4 billion.³ Reporting institutions represent only a portion of all institutions competing for the small business lending in the assessment area.

¹ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP02; available from: <http://factfinder2.census.gov> and <http://quickfacts.census.gov> (accessed December 15, 2014).

² Federal Deposit Insurance Corporation, Deposit Market Share Report, June 30, 2014; available from: <http://www2.fdic.gov/sod/sodMarketBank.asp?barItem=2>,

³ Information based on 2014 aggregate data consisting of institutions required to file annual CRA data.

Exhibit 2 and 3, on the following pages, presents key demographic and business information used to help develop a performance context for the assessment area. Exhibit 2 is based on the 2010 U.S. Census and 2013 Dun and Bradstreet data and Exhibit 3 is based on the 2010 U.S. Census and 2014 Dun and Bradstreet data.

EXHIBIT 2 ASSESSMENT AREA DEMOGRAPHICS Los Angeles-Orange ASSESSMENT AREA									
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income		
	#	%	#	%	#	%	#	%	
Low-income	245	8.4	193,207	6.7	65,411	33.9	675,997	23.6	
Moderate-income	825	28.2	785,939	27.4	146,904	18.7	477,723	16.6	
Middle-income	819	28.0	830,882	29.0	71,840	8.6	519,167	18.1	
Upper-income	999	34.1	1,059,442	36.9	39,314	3.7	1,196,673	41.7	
Unknown-income	41	1.4	90	0.0	0	0.0	0	0.0	
Total AA	2,929	100.0	2,869,560	100.0	323,469	11.3	2,869,560	100.0	
Income Categories	Housing Units by Tract	Housing Types by Tract							
		Owner-Occupied			Rental		Vacant		
		#	%	%	#	%	#	%	
Low-income	312,119	51,041	2.4	16.4	236,450	75.8	24,628	7.9	
Moderate-income	1,176,711	375,226	17.4	31.9	728,339	61.9	73,146	6.2	
Middle-income	1,274,794	643,494	29.9	50.5	561,706	44.1	69,594	5.5	
Upper-income	1,702,078	1,081,220	50.3	63.5	522,935	30.7	97,923	5.8	
Unknown-income	2,288	142	0.0	6.2	1,839	80.4	307	13.4	
Total AA	4,467,990	2,151,123	100.0	48.1	2,051,269	45.9	265,598	5.9	
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size						
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported		
	#	%	#	%	#	%	#	%	
Low-income	42,199	6.3	36,349	6.1	4,012	8.4	1,838	7.9	
Moderate-income	143,310	21.5	126,411	21.2	11,135	23.2	5,764	24.7	
Middle-income	186,383	27.9	165,186	27.7	14,452	30.1	6,745	28.9	
Upper-income	288,421	43.2	263,039	44.1	16,745	34.9	8,637	37.0	
Unknown-income	7,506	1.1	5,532	0.9	1,602	3.3	372	1.6	
Total AA	667,819	100.0	596,517	100.0	47,946	100.0	23,356	100.0	
% of Total Businesses				89.3		7.2		3.5	
2013 Median Family Income ⁴				December 2013 Median Housing Value ⁵					
Los Angeles County			\$60,792	Los Angeles County					\$439,830
Orange County			\$82,861	Orange County					\$677,660
2013 HUD Adjusted Median Family Income ⁶				2013 Unemployment Rate ⁷					
Los Angeles County			\$61,900	Los Angeles County					9.8%
Orange County			\$84,100	Orange County					6.5%

⁴ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2013, available from: <http://factfinder2.census.gov> (accessed July 20, 2015).

⁵ California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/> (accessed July 20, 2015).

⁶ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html> (accessed July 20, 2015).

⁷ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available at: <http://www.bls.gov/lau/> (accessed July 20, 2015).

EXHIBIT 3 ASSESSMENT AREA DEMOGRAPHICS Los Angeles-Orange ASSESSMENT AREA								
Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	245	8.4	193,207	6.7	65,411	33.9	675,997	23.6
Moderate-income	825	28.2	785,939	27.4	146,904	18.7	477,723	16.6
Middle-income	819	28.0	830,882	29.0	71,840	8.6	519,167	18.1
Upper-income	999	34.1	1,059,442	36.9	39,314	3.7	1,196,673	41.7
Unknown-income	41	1.4	90	0.0	0	0.0	0	0.0
Total AA	2,929	100.0	2,869,560	100.0	323,469	11.3	2,869,560	100.0
Income Categories	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	312,119	51,041	2.4	16.4	236,450	75.8	24,628	7.9
Moderate-income	1,176,711	375,226	17.4	31.9	728,339	61.9	73,146	6.2
Middle-income	1,274,794	643,494	29.9	50.5	561,706	44.1	69,594	5.5
Upper-income	1,702,078	1,081,220	50.3	63.5	522,935	30.7	97,923	5.8
Unknown-income	2,288	142	0.0	6.2	1,839	80.4	307	13.4
Total AA	4,467,990	2,151,123	100.0	48.1	2,051,269	45.9	265,598	5.9
Income Categories	Total Businesses by Tract		Businesses by Tract & Revenue Size					
			Less Than or Equal to \$1 Million		Greater than \$1 Million		Revenue Not Reported	
	#	%	#	%	#	%	#	%
Low-income	39,121	6.0	33,549	5.8	3,984	8.2	1,588	7.4
Moderate-income	135,580	20.9	119,206	20.6	11,268	23.2	5,106	23.8
Middle-income	180,753	27.8	159,859	27.6	14,673	30.1	6,221	29.0
Upper-income	287,578	44.2	262,330	45.2	17,091	35.1	8,157	38.1
Unknown-income	7,093	1.1	5,077	0.9	1,656	3.4	360	1.7
Total AA	650,125	100.0	580,021	100.0	48,672	100.0	21,432	100.0
% of Total Businesses				89.2		7.5		3.3
2013 Median Family Income ⁸					December 2014 Median Housing Value ⁹			
Los Angeles County			\$60,792		Los Angeles County			\$464,650
Orange County			\$82,861		Orange County			\$683,490
2014 HUD Adjusted Median Family Income ¹⁰					2014 Unemployment Rate ¹¹			
Los Angeles County			\$60,600		Los Angeles County			8.3%
Orange County			\$84,900		Orange County			5.5%

Economic Conditions

⁸ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP03, 2013, available from: <http://factfinder2.census.gov> (accessed July 20, 2015).

⁹ California Association of Realtors, Sales and Median Prices for Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/> (accessed July 20, 2015).

¹⁰ U.S. Department of Housing and Urban Development, Adjusted Median Family Income; available from: <http://www.huduser.org/portal/datasets/il/il14/index.html> (accessed July 20, 2015).

¹¹ U.S. Bureau of Labor Statistics, Local Area Unemployment Statistics by County; available from: <http://www.bls.gov/lau/> (accessed July 20, 2015).

Los Angeles County is a major center for manufacturing, trade, technology, and entertainment.¹² The county is the largest manufacturing center in the U.S., employing 510,900 workers in manufacturing fields in 2014.¹³ Trade is also a major driver of the local economy, and the Los Angeles Customs District, which includes the ports of Long Beach, Los Angeles, Port Hueneme, and Los Angeles International Airport (LAX), was the nation's largest trade district in 2013, with a two-way trade value of \$414.8 billion.¹⁴ Although recent shipping delays are hurting wholesalers and retailers, the resultant economic drag is being offset by rapid growth in the technology sector.¹⁵ In addition, passenger traffic at LAX increased 6 percent during the review period.¹⁶ Bolstered by the presence of Hollywood, entertainment is a key industry in Los Angeles County, making up 63 percent of California's total entertainment employment.¹⁷ Although Hollywood hiring has cooled recently, film production was up in 2014.¹⁸ From 2012 to 2013, the majority of the main industries in the county, as delineated by the Bureau of Labor Statistics, posted year over year growth and there are strong signs of recent improvement in the economy.¹⁹

Orange County is a prosperous hub for high-tech, health, manufacturing and tourism industries. The technology sector has been expanding in data storage, networking, and mobile technology, and the strong tech infrastructure has helped the area transition from defense-related industries that were hurt by Pentagon budget cuts.²⁰ In addition to growth in the technology field, Orange County has seen development in the medical sector. Several of the county's larger health care providers have expanded facilities to meet growing demand for health care services, and life science firms and medical instrument manufacturers have seen significant growth.²¹ Comparatively, the county's expansion in this sector has far exceeded national averages over the past two years.²² Finally, the area's tourism sector has rebounded from the Great Recession with increasing numbers of travelers to the area and expansions are underway on major tourist attractions.²³ Similar to Los Angeles County, the majority of the main industries in the county, as delineated by the Bureau of Labor Statistics, posted year over year growth from 2012 to 2013.²⁴

¹² Los Angeles County Economic Development Corporation (LAEDC), *Industry Clusters in Los Angeles* (pg. 2-4), available from: <http://laedc.org/business-assistance/industry-clusters/> (accessed December 15, 2014).

¹³ Hsu, Tiffany. "Los Angeles is largest manufacturing center in U.S., government says." *Los Angeles Times*, September 1, 2014; available from: <http://www.latimes.com/business/la-fi-los-angeles-manufacturing-20140829-story.html> (accessed March 28, 2015).

¹⁴ LAEDC, *L.A. Stats 2014* (pg. 3), available from: http://laedc.org/wp-content/uploads/2014/08/2014-LA-Stats_Final.pdf (accessed September 8, 2014).

¹⁵ Moody's *Précis Report*, Los Angeles, December 2014.

¹⁶ LAX Passenger Departures; available from: http://www.lawa.org/uploadedfiles/LAX/statistics/m_share-2014.pdf

¹⁷ LAEDC, *Industry Clusters in Los Angeles* (pg. 2).

¹⁸ Moody's *Précis Report*, Los Angeles, December 2014.

¹⁹ Department of Transportation, *Log Angeles County Economic Forecast, 2014*; available from: http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic.html (accessed December 15, 2014).

²⁰ Moody's *Précis Report*, Santa Ana, August 2013.

²¹ LAEDC, *2013-2014 Economic Forecast and Industry Outlook* (pg. 39).

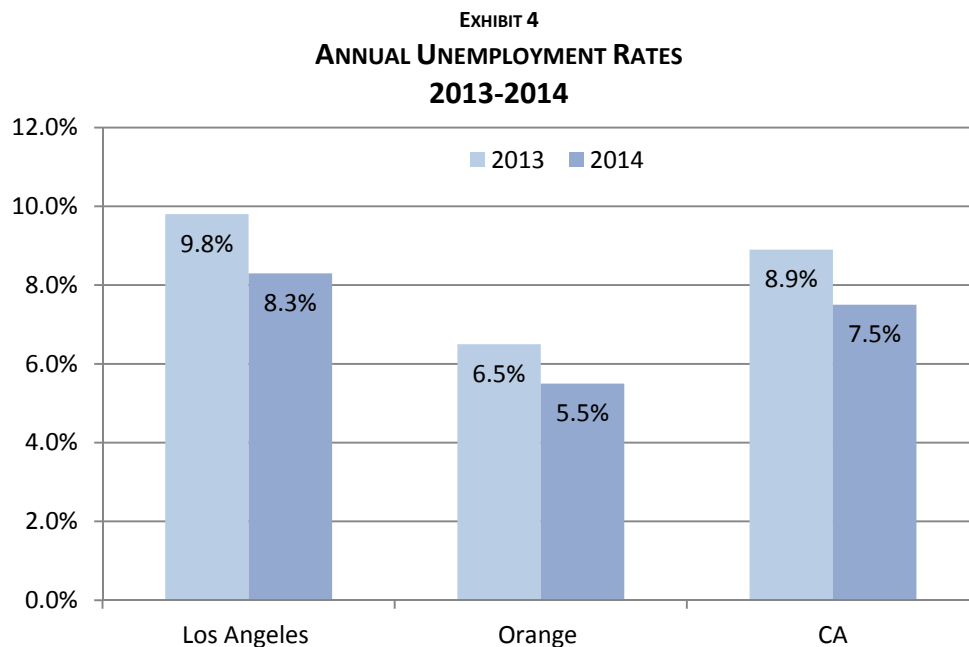
²² Moody's *Précis Report*, Santa Ana, April 2014.

²³ LAEDC, *2013-2014 Economic Forecast and Industry Outlook* (pg. 38-39).

²⁴ Department of Transportation, *Orange County Economic Forecast, 2014*; available from: http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic.html (accessed December 15, 2014).

While the economy has continued to improve during the review period, a review of small business loan data reported by banks subject to the CRA suggests that lending levels are increasing, but remain significantly below lending levels prior to the Great Recession.²⁵ As depicted in Exhibit 3 there were approximately 580,021 small businesses operating in the assessment area in 2014, representing 89.2 percent of all businesses. National surveys suggest that depressed demand, uncertainty about the economy, and issues with creditworthiness may help explain the relatively low levels of lending to small businesses.²⁶

Unemployment data provide additional evidence of an ongoing recovery from the Great Recession. As shown in Exhibit 4 below, the unemployment rate declined throughout the assessment area during the review period.²⁷



Assessment area home prices have continued to rise subsequent to the Great Recession, consistent with improving trends in the economy. While home prices in the area remain below their peak in 2007, prices rose significantly during the review period, as depicted in Exhibit 5 on the following page. During the review period, home prices increased by 33 percent in Los Angeles County, 21 percent in Orange County, and 35 percent statewide.²⁸

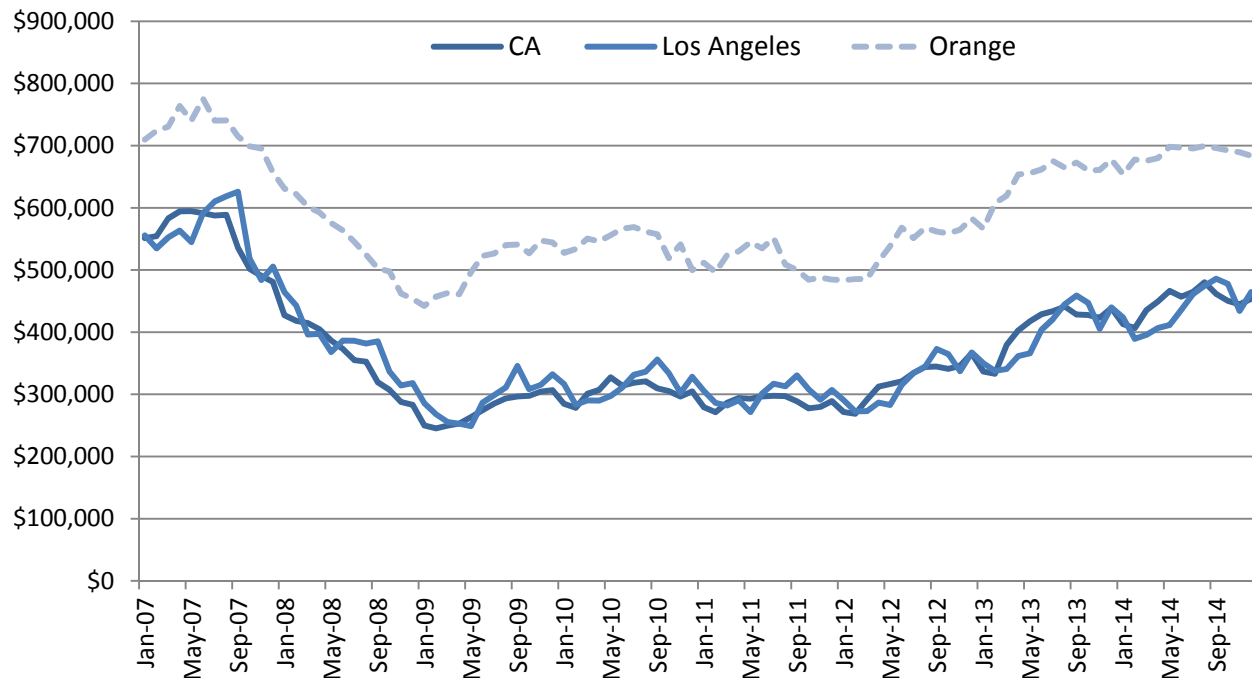
²⁵ Aggregate CRA Small Business data reports available from: <https://www.ffiec.gov/craadweb/national.aspx>.

²⁶ Wiersch, Anne Marie. Good News and Bad News on Small Business Lending in 2014. January 5, 2015. Available from: <https://www.clevelandfed.org/en/Newsroom%20and%20Events/Publications/Community%20Development%20Briefs/Briefs/Good%20News%20and%20Bad%20News%20on%20Small%20Business%20Lending%20in%202014.aspx> (accessed March 25, 2015).

²⁷ Bureau of Labor Statistics, Local Area Unemployment Statistics by County, annual average; available from: <http://www.bls.gov/lau/> (accessed May 27, 2015).

²⁸ California Association of Realtors, Historical Housing Data, Median Prices of Existing Detached Homes; available from: <http://www.car.org/marketdata/data/housingdata/> (accessed March 25, 2015).

EXHIBIT 5
MEDIAN HOME PRICES
JANUARY 2007-DECEMBER 2014



Consistent with rising home prices, home ownership and rental housing have become less accessible to some households within the assessment area. In a recent study on housing, Orange and Los Angeles counties ranked as the nation's second and third least affordable counties, respectively, for middle class families looking to buy a home.²⁹ According to the California Association of Realtors Traditional Affordability Index, the percentage of households that could afford to purchase the median priced home dropped between the first quarter of 2013 and fourth quarter of 2014. At the end of the review period, only 28 percent of households in Los Angeles County and 21 percent of households in Orange County could afford the median priced home.³⁰ Similarly, rental prices also increased during the review period and at the end of 2013 median rents were \$1,205 in Los Angeles County and \$1,499 in Orange County.³¹ The Urban Institute, a nonprofit social and economic policy research group, estimates that for every 100 very low- income renter households, there are only 17 housing units available and affordable in Los Angeles County and 18 in Orange County.³²

²⁹ Kolko, Jed. Where Can the Middle Class Afford to Buy a Home? *Trulia*. October 10, 2013; available from: <http://www.trulia.com/trends/2013/10/middle-class/> (accessed March 18, 2014).

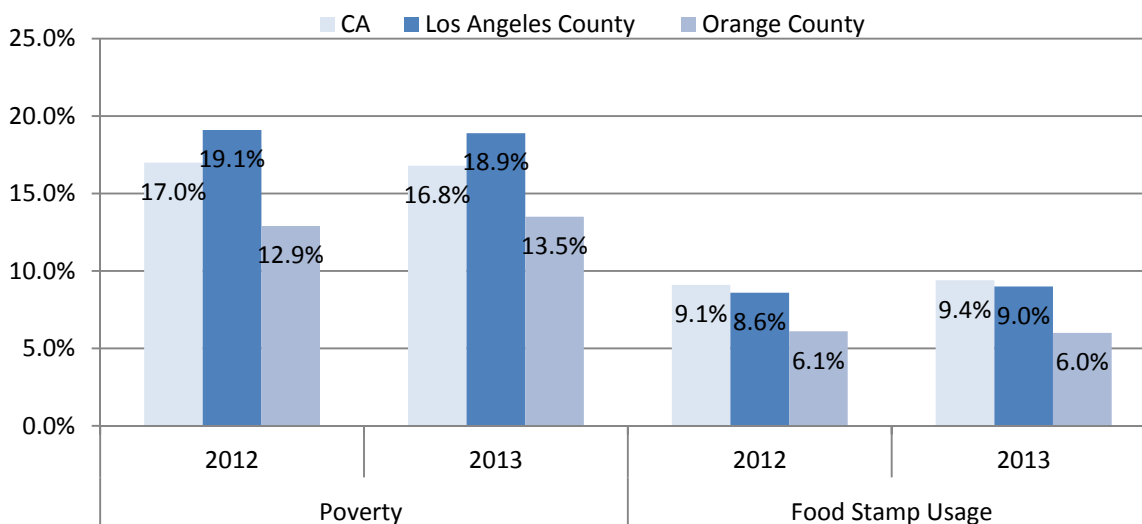
³⁰ California Association of Realtors, Housing Affordability Index-Traditional; available from: <http://www.car.org/marketdata/data/haitraditional/> (accessed May 29, 2015).

³¹ U.S. Census Bureau, American Community Survey 1 Yr Estimates, DP04, 2013, available from: <http://factfinder2.census.gov> (accessed December 15, 2014).

³² Urban Institute, Housing Assistance Matter Initiative; available from: <http://www.urban.org/housingaffordability/> (accessed January 6, 2015).

Although there have been noticeable improvements in the housing market and overall economy, improvements for low- and moderate-income individuals are less visible. As shown below in Exhibit 6, poverty and food stamp usage rates were generally flat for the disadvantaged within the assessment area, suggesting that these individuals are still not seeing the full effects of the economic recovery.³³ While poverty is a significant issue throughout the assessment area, certain areas are much more impoverished than others. For example, Central Los Angeles, Compton, Westmont, and Santa Ana all had poverty rates significantly higher than county rates.³⁴ The assessment area is also home to the nation's second largest population of Asian-Americans living in poverty and the largest population of Asian-Americans living in extreme poverty neighborhoods (defined as census tracts where the poverty rate exceeds 40 percent).³⁵ Despite improvements in the assessment area's economy, much of the job growth has been dominated by lower-paying service jobs,³⁶ and respondents to the Federal Reserve Bank of San Francisco's *Vantage Point Survey* noted that the lack of education among low-income residents in Los Angeles County makes it difficult for those who want to transition out of these lower-paying jobs.³⁷

EXHIBIT 6
POVERTY AND FOOD STAMP USAGE
2012-2013



³³ U.S. Census Bureau, American Community Survey 1-Yr Estimate, Selected Social Characteristics DPO3, 2013; available from: <http://factfinder2.census.gov> (accessed September 19, 2014).

³⁴ Community Commons Data Mapper; available from: <http://maps.communitycommons.org/viewer/>.

³⁵ National Coalition for Asian Pacific American Community Development, Spotlight: Asian American and Pacific Islander Poverty (pg. 31), June 2013; available from: http://nationalcapacd.org/sites/default/files/u12/aapi_poverty_report-web_compressed.pdf (accessed January 8, 2015).

³⁶ Kirkham, Chris. Southland adding jobs at rapid pace but many have low pay, reports say. *Los Angeles Times*. December 4, 2014; available from: <http://www.latimes.com/business/la-fi-wage-stagnation-20141205-story.html> (accessed January 7, 2015).

³⁷ Federal Reserve Bank of San Francisco's Vantage Point Survey. December, 2014. The survey results are not yet publicly available.

Credit and Community Development Needs

The economic data previously discussed, as well as feedback from community contacts with small business development agencies, suggest that small businesses in the assessment area need access to a variety of credit. As previously mentioned, data reported by banks subject to the CRA within the assessment area indicates that small businesses lending levels in 2013 (the most recent data available) remained depressed, albeit levels are now somewhat above the lows experienced during the Great Recession. A review of surveys of senior loan officers conducted by the Federal Reserve Board during the review period indicate that only a small percentage of banks have reported some easing of their lending standards to small firms with annual sales of less than \$50 million.³⁸ The depressed lending levels and the limited easing of credit standards for small firms, which became more conservative during the Great Recession, suggest that small businesses face challenges in accessing credit and that some level of small business credit needs remain unmet by area banks. Furthermore, a review of information obtained from community contacts throughout the assessment area generally supports this opinion and suggests that small businesses are most in need of startup financing, lines of credit, and working capital loans in smaller dollar amounts.

A variety of factors indicate that there is also a need for affordable housing development and financing within the assessment area. High housing costs and low rental affordability and availability highlight a need for products and services that support access to affordable housing. This is supported by information obtained from community contacts indicating that low- and moderate-income individuals have been priced out of the market by investors purchasing large groups of homes as rental properties. Assessment area respondents to the Federal Reserve Bank of San Francisco's Vantage Point Survey also highlighted that the increase in median rental prices is outpacing the increase in average wages, thereby preventing low- and moderate-income individuals from obtaining safe and affordable housing.³⁹

As shown in Exhibit 6, the poverty and food stamp usage rates have remained relatively flat, suggesting that many low- and moderate-income individuals have not experienced the benefits of the improving economy. A 2013 study found that many Californians find it difficult to make ends meet and that the situation would be much worse without state, federal, and local safety net programs.⁴⁰ At the same time, lower revenues resulting from decreased government support and difficulty attracting donations, among other factors have made it more difficult for local non-profits to meet the needs of an expanding clientele.⁴¹ The prevalence of poverty and the need for social support services discussed earlier highlight the importance of community service organizations within the bank's communities.

³⁸ Federal Reserve Board, Senior Loan Officer Opinion Surveys; available from: <http://www.federalreserve.gov/BoardDocs/snloansurvey/>.

³⁹ Federal Reserve Bank of San Francisco's Vantage Point Survey. December, 2014. The survey results are not yet publicly available.

⁴⁰ Holland, Gale "L.A. County Leads California in Poverty Rate, New Analysis Shows." Los Angeles Times, September 30, 2013, available from: <http://articles.latimes.com/2013/sep/30/local/la-me-poverty-20131001> (accessed August 2, 2014).

⁴¹ UCLA Center for Civil Society. *Stressed and Stretched: The Recession, Poverty, and Human Services Nonprofits in Los Angeles*, p. vii. Available from: <http://civilsociety.ucla.edu/> (accessed August 2, 2014).

Furthermore, many households are still struggling from the effects of the recession and those that withdrew funds from emergency accounts during the recession may find themselves doubly disadvantaged as they no longer have assets to draw upon.⁴² This is consistent with responses received from community contacts that indicate that there are significant wage discrepancies within the assessment area and there are also issues with underemployment (e.g., workers that are highly skilled that are employed with low-paying jobs). The ongoing demand for services often results in needs for community service organizations in terms of financial support and technical assistance as they attempt to service significant low-and moderate-income populations within the bank's assessment areas. Ultimately, this has the potential to create community development service or investment opportunities for financial institutions.

⁴² Rebalancing the American Dream: Forging Pathway to Financial Security. *Community Investments*. Federal Reserve Bank of San Francisco. Summer/Fall 2014. Available from: http://www.frbsf.org/community-development/files/ci_vol26no2.pdf (pg. 4).

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The loan-to-deposit ratio (LTD) is reasonable given the institution's size, financial condition, and assessment area credit needs. During the review period, the bank's average LTD ratio was 67.1 percent and moderately lower than the state average of 78.56 and the national peer average of 76.37.

Lending in Assessment Area

A substantial majority of the bank's loans, by number and by dollar volume, were within the assessment area. As shown in Exhibit 7 below, 96.0 percent of the bank's small business lending was within the assessment area and 91.8 percent of all lending was within the assessment area. These lending levels support that FHB actively helped address credit needs within its local communities.

EXHIBIT 7 LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA JANUARY 1, 2013 – DECEMBER 31, 2014								
Loan Type	Inside				Outside			
	#	%	\$ ('000s)	%	#	%	\$ ('000s)	%
Small Business	121	96.0	31,667	96.4	5	4.0	1,185	3.6
Other Small Business	20	80.0	6,928	89.1	5	20.0	848	10.9
Total Business-Related	141	93.4	38,595	95.0	10	6.6	2,033	5.0
HMDA Home Purchase	4	57.1	2,811	84.5	3	42.9	515	15.5
HMDA Refinance	10	90.9	4,495	62.0	1	9.1	2,750	38.0
HMDA Home Improvement	1	100.0	400	100.0	0	0.0	0	0.0
HMDA Multifamily	1	100.0	450	100.0	0	0.0	0	0.0
Total HMDA-Related	16	80.0	8,156	71.4	4	20.0	3,265	28.6
Total Loans	157	91.8	46,751	89.8	14	8.2	5,298	10.2

Lending Distribution by Geography

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. Overall, the distribution of small business lending compares favorably to the distribution of business entities and aggregate lending. As depicted in Exhibit 8 below, small business lending in moderate-income census tracts was particularly strong and significantly exceeded the concentration of businesses and aggregate lending in 2013 and 2014. While performance was not as strong in low-income census tracts, this can be attributed to the concentration of moderate- and middle-income census tracts in the areas surrounding the branch locations, whereas low-income census tracts are concentrated in areas of greater distance from the branches. In addition, the geographic distribution of loans is enhanced through the bank's community development lending activities, which were primarily provided in low- and very low-income geographies, and are discussed in further detail in the *Community Development Activities* section below.

EXHIBIT 8 GEOGRAPHIC DISTRIBUTION OF SMALL BUSINESS LOANS								
Census Tract	Low		Moderate		Middle		Upper	
	#	%	#	%	#	%	#	%
Los Angeles-Orange Assessment Area 2013								
Bank Lending	1	1.7	33	55.9	13	22.0	12	20.3
Aggregate Lending	16,512	5.5	56,161	18.7	80,828	26.9	146,437	48.8
Business Concentration	42,199	6.4	143,310	21.7	186,383	28.2	288,421	43.7
Los Angeles-Orange Assessment Area 2014								
Bank Lending	1	1.6	38	62.3	7	11.5	15	24.6
Aggregate Lending	19,762	5.6	67,961	19.4	96,587	27.5	166,485	47.5
Business Concentration	39,121	6.1	135,580	21.1	180,753	28.1	287,578	44.7

Lending Distribution by Business Revenue

The bank's small business lending is reasonably dispersed among businesses of different revenue sizes. As shown in Exhibit 9 below, a reasonable portion of the small business loans were to businesses with gross annual revenues of \$1 million or less. While FHB's lending to these businesses fell below aggregate lending and the concentration of small businesses in the area, the bank demonstrated excellent performance in helping to address the community needs for small dollar loans. Originations of less than \$250,000 accounted for a majority of the bank's small business lending in 2013 and 2014, with loans for less than \$100,000 accounting for a sizeable percentage of these smaller dollar loans.

EXHIBIT 9 BUSINESS REVENUE DISTRIBUTION OF SMALL BUSINESS LOANS							
Year	Bank Lending #	Lending to Businesses with Revenue <=\$1 Million			Originations Regardless of Revenue Size by Loan Amount		
		Bank Lending (%)	Businesses <=\$1M in Revenue (%)	Aggregate Lending (%)	<=\$100K (%)	> \$100K & <=\$250K (%)	>250K & <=\$1M (%)
2013	59	35.6	89.3	51.4	39.0	23.7	37.3
2014	62	32.3	89.2	48.3	29.0	30.6	40.3

Response to Complaints

The bank did not receive any complaints related to its CRA performance during the review period. Accordingly, the bank's performance in responding to complaints was not considered in evaluating its overall CRA performance.

Community Development Activities

The bank's community development lending demonstrated excellent responsiveness to the community development needs within the assessment area by providing affordable housing and revitalization in these communities in Los Angeles County. Overall, the bank made 12 qualified community development loans during the review period, totaling approximately \$6 million. These lending activities are summarized below:

- Eight loans, totaling \$2.8 million, to finance multiple affordable housing projects in South Los Angeles. These projects created 22 new affordable housing units in low- and moderate-income census tracts and helped address the community's need for affordable rental housing. The majority of the units are located in very low-income areas with an average of 40 percent of families below the poverty line.
- A \$1.2 million loan used to construct housing units affordable to low- and moderate-income tenants. The project created 10 new units, all of which were rented to participants of the Section 8 government voucher program. Tenants of these units pay no more than 30.0 percent of their monthly income to housing, while the remainder is subsidized using the voucher system.
- A total of \$2 million in loans to fund multiple rehabilitation projects of distressed residential properties in South Los Angeles. The projects created 12 below market rate housing units in low- and moderate-income census tracts, and were consistent with the South Los Angeles Community Plan to revitalize the area and protect stable residential neighborhoods throughout the community.

Fair Lending or Other Illegal Practices Review

Concurrent with this CRA evaluation, a review of the bank's compliance with consumer protection laws and regulations was conducted. That review found no violations of the substantive provisions of anti-discrimination, fair lending, or other illegal credit practice rules, laws or regulations that were inconsistent with helping to meet community credit needs.

GLOSSARY OF TERMS

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: All Agencies have adopted the following language. Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency (OCC), and the FDIC have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, the FDIC, and the OCC, based on:
 - a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Full-scope review: Performance under the lending and community development tests is analyzed considering performance context, quantitative factors (for example, geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (for example, responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance under the lending and community development tests is analyzed using only quantitative factors (for example, geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

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

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.