

PUBLIC DISCLOSURE

November 1, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Bay Area Bank
RSSD Number 678865
900 Veterans Blvd.
Redwood City, CA 94063**

**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 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 **Bay Area Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **November 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

Institution's CRA Rating: This institution is rated satisfactory.

Bay Area Bank continues to demonstrate satisfactory responsiveness to assessment area credit needs. Small business loan volume and lending concentration within the bank's assessment area demonstrate an outstanding commitment to the bank's community. Small business lending also exhibits a good geographic distribution of small business loans among assessment area geographies, including moderate-income census tracts. Conversely, the bank's small business lending to businesses of different sizes evidences limited response to businesses with revenues of \$1 million or less considering assessment area credit needs and peer comparisons.

PERFORMANCE CONTEXT

Description of Institution

Bay Area Bank operates as a wholly owned subsidiary of Greater Bay Bancorp, a multi-bank holding company, maintaining one banking office in Redwood City, California. It also operates 55 ATM machines throughout San Mateo County. Prior to its acquisition by Greater Bay Bancorp on July 23, 1999, Bay Area Bank operated as an independent, unit bank since commencing business in November of 1979. As of the examination date, members of the Greater Bay family also include the following banks located in the San Francisco Bay Area: Mid-Peninsula Bank, Peninsula Bank of Commerce, Golden Gate Bank, and Cupertino National Bank as well as several non-bank subsidiaries. Bay Area Bank considers itself primarily a business bank focusing on originating commercial credit. Deposit products include traditional savings and time deposit accounts held by existing business customers. The bank's Consolidated Report of Condition and Income (Call Report) as of June 30, 1999, reflected total assets of \$169 million with net loans representing the primary component of total assets. As illustrated below, commercial lending accounts for 53 percent of the bank's portfolio followed by construction and loans secured by residential property.

Call Report Distribution by Loan Type

Loan Type	Dollar Amount (‘000s)	% of Total
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$ 59,030	52.8%
Construction Loans	\$ 40,337	36.0%
Secured by 1-4 Family Residential Property	\$ 8,591	7.7%
Consumer Loans	\$ 3,551	3.2%
All Other	\$ 391	0.3%
Total	\$114,900	100.00%

Bay Area Bank's community focus differentiates the bank from other commercial lenders in its assessment area as well as enabling it to participate in numerous local development projects. Consistent with this focus, the bank historically provided large amounts of construction financing within its market, and it continues to maintain key relationships with commercial real estate developers. The bank's lending focus evolved over time from businesses reporting revenues of less than or equal to \$1 million to businesses making the transition into the lower middle market (revenues of \$2.5 million to \$10 million). Although this evolution is consistent with the bank's size and financial ability, small business lending, particularly in loan amounts less than \$100,000, remains a critical assessment area credit need as the strength of the region's economy continually develops new business opportunities.

Bay Area Bank's one banking office is located on one of Redwood City's major thoroughfares, Whipple Avenue. Financial institutions operate 168 branches in San Mateo County with

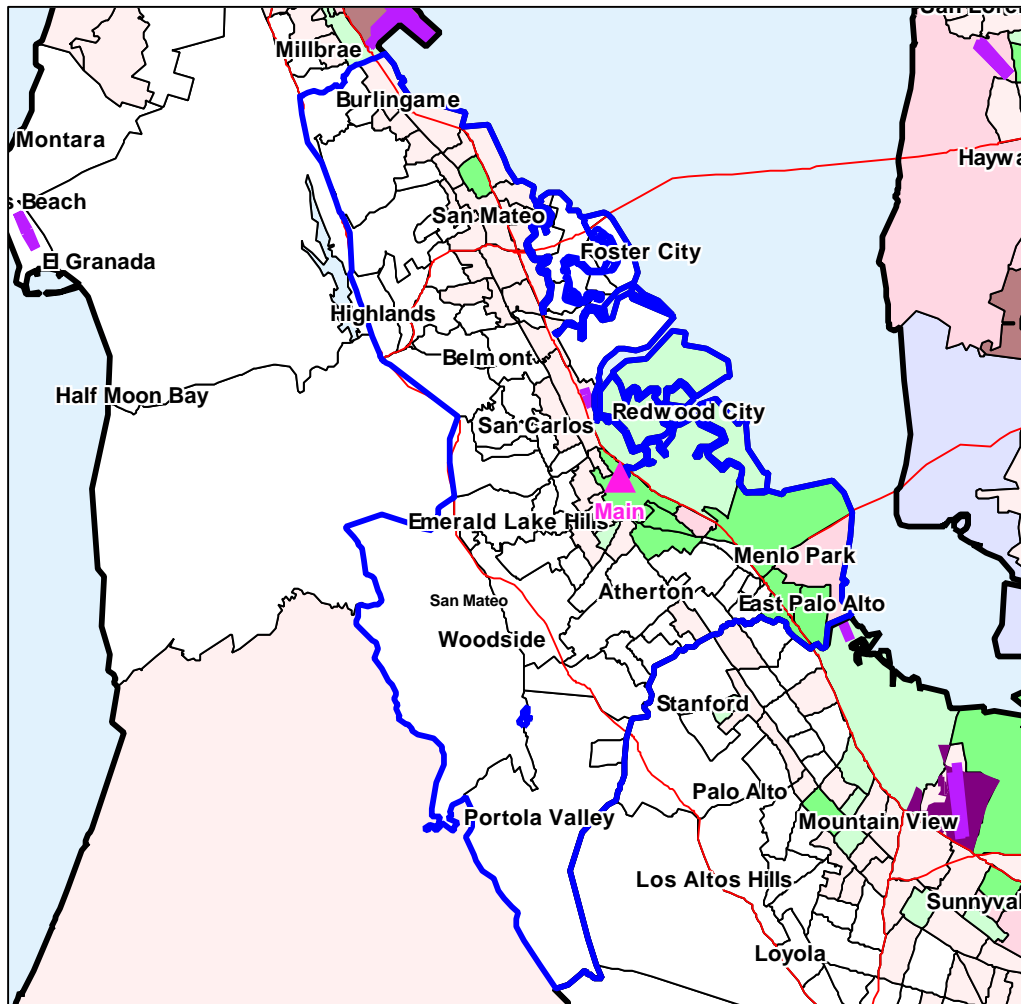
deposits totaling \$11.5 billion.¹ Bay Area Bank's market share of that total is less than one percent, making the bank a relatively small presence in its overall market. Nonetheless, the bank maintains its position as a community bank. There are no legal, financial or other impediments preventing it from meeting the credit needs of its community, consistent with the its size and financial capacity and local economic conditions. In August of 1998, Bay Area Bank received a satisfactory Community Reinvestment Act performance rating from its previous regulator, the Federal Deposit Insurance Corporation.

Description of Assessment Area

Bay Area Bank's assessment area incorporates the following cities in San Mateo County: Belmont, Burlingame, East Palo Alto, Foster City, Menlo Park, Portola Valley, Redwood City, San Carlos, San Mateo, and Woodside. The assessment area definition is consistent with the requirements of Regulation BB. As illustrated in the accompanying map, assessment area geographical boundaries consist of the northern city limits of Burlingame on the north, the San Mateo County line on the south, Skyline Boulevard on the east, and the San Francisco Bay on the west. The assessment area's 96 census tracts incorporate two low-income census tracts (2 percent), 10 moderate-income census tracts (11 percent), 31 middle-income census tracts (32 percent), and 53 upper-income census tracts (55 percent). Although included in the assessment area, the low-income tracts contain zero population and zero businesses. The assessment area's 1990 population totaled approximately 373,000 persons. Consistent with the distribution of census tracts, the largest population concentration resides in upper-income census tracts (50 percent) followed by middle-income tracts (33 percent), and moderate-income tracts (17 percent). Based upon the assessment area's median income of \$57,828, low-income families constitute 14 percent of assessment area families, moderate-income constitute 15 percent, middle-income constitute 22 percent, and upper-income families constitute 49 percent. Families below the poverty level constitute 4.3 percent of assessment area population.

¹Federal Deposit Insurance Corporation (FDIC), Summary of Deposits, Offices and Deposits of all FDIC-Insured Institutions with Offices located in San Mateo County as of November 1, 1999.

The assessment area's economy reflects its proximity to the major employment centers of San Francisco and the Silicon Valley as well as the local economies centered around individual cities such as Burlingame, Foster City, Redwood City, and San Mateo. As such, assessment area geographies include residential developments, small businesses, and a commercial and



industrial base supporting companies such as Visa International, Oracle Corporation, and OracleB. Services constitute the assessment area's largest industry comprising 35 percent of the employed population followed by retail trade (16 percent), finance, insurance and real estate (10 percent), and by transportation and public utilities. Within these industries, 86 percent of businesses operating within the assessment area generates revenues of \$1 million or less.² According to information from community contacts, technical assistance and small business loans in amounts of \$100,000 or less, are the greatest needs among these businesses.

Economic data also highlights the assessment area's limited supply of affordable housing, high median housing value, and the developmental costs associated with new projects. Owner-occupied housing units and occupied rental units, respectively, comprise 56 percent and 40 percent of the assessment area's 152,700 housing units, resulting in a near capacity occupancy rate of 96 percent. Moreover, 96 percent of assessment area owner-occupied units

² 1998 Dun & Bradstreet Business Concentration Data

cost \$150,000 or more and have a median housing value of \$406,464. Geographic constraints, such as the confining nature of the San Francisco Peninsula, limit available land for development, and the region's strong economy contributes to the high occupancy rates and median housing values. For example, in 1998 southern San Mateo County, a region entirely included in the bank's assessment area, produced twelve jobs for every one housing unit created, and six of seven Silicon Valley cluster industries reported 1997 average incomes of \$60,000 or more.³ Consistent with the geographic constraints of available land and the region's economic prosperity, available credit opportunities in financing affordable housing consists primarily of large, multifamily developments and high density live/work residential complexes located adjacent to public transportation facilities. These types of credit facilities are typically funded by complex banking organizations or through partnerships between several community banks and community development corporations.

³ Joint Venture: Silicon Valley Network's 1999 Index of Silicon Valley

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

Examiners evaluated Bay Area Bank's performance under the Community Reinvestment Act based upon four of the five small bank performance criteria. These criteria consist of the following:

- The bank's loan volume in comparison to deposits (Loan-to-Deposit Ratio)
- The bank's lending inside and outside its assessment area (Lending in Assessment)
- The distribution of lending to businesses of different sizes (Lending by Business Revenue), and
- The dispersion of lending throughout the census tracts or geographic areas within the assessment area (Geographic Distribution of Loans).

The bank's responsiveness to consumer complaints was not evaluated because the bank received no CRA-related complaints during the period between examinations (August 1998 and November 1999).

Loan products considered under the small bank performance criteria consisted of a statistical sample of 131 small business loans totaling \$19.8 million originated during the review period beginning August 1998 through September 1999. The initial assessment considered the entire loan sample to determine the bank's loan volume in comparison to deposits and the volume of lending within the bank's assessment area while only those loans extended inside the bank's assessment areas were used to evaluate the geographic distribution of lending. Examiners also collected the revenues of businesses with loans inside the assessment area to evaluate the bank's lending to businesses of different sizes.

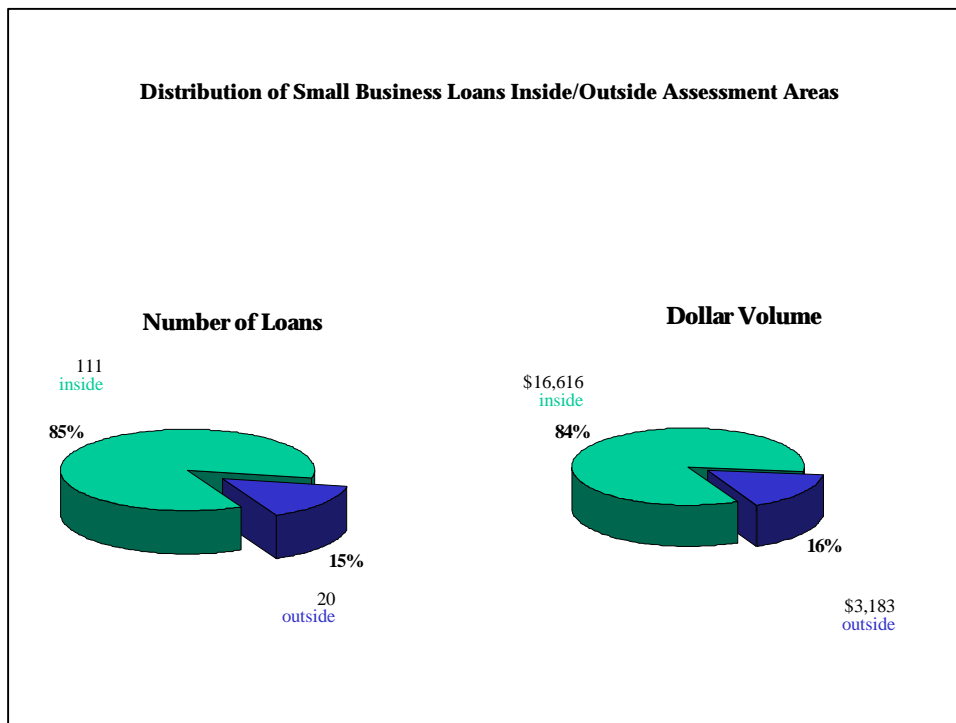
Loan-to-Deposit Ratio

Bay Area Bank's loan-to-deposit ratio reflects an outstanding level of lending activity consistent with assessment area credit needs. The bank's loan-to-deposit ratio during the four quarters since its previous examination averaged 76.8 percent and ranged from 72.8 percent to 81.1 percent.

This average represents an improvement from the bank's 74 percent loan-to-deposit ratio recorded at its last Community Reinvestment Act examination. This improvement occurred during a period of significant deposit growth. State and national loan-to-deposit ratios over the same period both averaged 66.4 percent while local peer bank average loan-to-deposit ratios ranged from 42.7 percent to 84.5 percent.

Lending in Assessment Area

Small business lending patterns demonstrate that the bank originated a substantial majority of its small business loans within the delineated assessment area. As illustrated, the 111 small business loans originated within its assessment area accounted for approximately 85 percent of all small business loans originated during the sample period. Similarly, the dollar volume (\$16.6 million) of small business loan originations within the assessment area totaled approximately 84 percent of all small business loans funded. Consistent with its size and financial capacity, this concentration of small business loans inside the assessment area illustrates a successful match between the bank's loan products and the small business credit needs of the local community.



Lending by Business Revenue

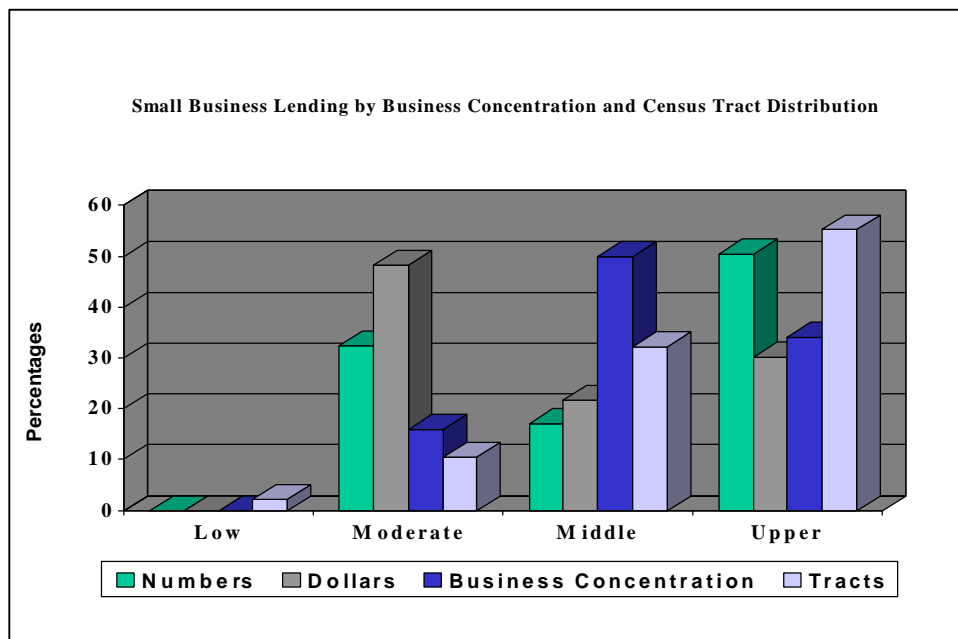
Bay Area Bank's small business lending record demonstrates a limited response to businesses with revenues of less than or equal to \$1 million despite apparent loan demand from this segment of the market as evidenced by aggregate lending activity⁴ and articulated community credit needs. Overall lending results indicate that Bay Area Bank extended 30 of its 111 small business loans (27 percent) in number and \$7.4 million (44.7 percent) in total dollar volume to businesses with revenues of \$1 million or less. Similarly, the bank exhibited limited response in number of loans (15.1 percent) and dollar volume (22.4 percent) to business with revenues of

⁴ 1998 CRA Aggregate Small Business Lending Data reported by financial institutions subject to the large bank CRA assessment methodology.

\$1 million or less in loan amounts of \$100,000 or less. While this profile evidences some responsiveness, the concentration of assessment area businesses reporting gross annual revenues of \$1 million or less (86 percent) and the articulated credit need among those businesses for working capital loans and lines of credit in amounts less than \$100,000 suggests that opportunities exist for servicing smaller businesses. Moreover, local peer banks exhibited an average penetration ratio of 52.2 percent in number of small business loans extended to businesses with revenues less than or equal to \$1 million and 51.8 percent in dollar volume.

Geographic Distribution of Loans

Bay Area Bank’s small business lending reflects a reasonable distribution throughout assessment area geographies, including moderate-income census tracts. The accompanying graphic shows the bank’s excellent penetration level to the nine moderate-income census tracts situated within a six-mile radius of the bank’s Redwood City office. The remaining moderate-income tract lies eight miles away from the bank, adjacent to another city’s commercial district. Small business lending in middle-income census tracts mirrors the concentration of businesses along El Camino Real and Interstate 280 (situated as far as 12 miles away from bank’s Redwood City location) and the corresponding competition along those corridors from numerous other financial institutions. The numerical concentration of Bay Area Bank small business loans in the upper-income tracts bordering Interstate 280 reflects the bank’s construction and commercial real-estate secured niche-lending activities to the large number of construction companies situated there.



Response to Complaints

Since the previous examination, the bank has not received any complaints relating to its CRA performance. Consequently, the bank’s performance under this criterion was not evaluated.

Compliance with Fair Lending Laws and Regulations

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations. It has established policies and procedures to ensure compliance with fair lending laws and regulations. No fair lending violations were noted at this examination, and there was no evidence that Bay Area Bank engages in any type of discriminatory or discouragement practices 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	<ol style="list-style-type: none">(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: <ol style="list-style-type: none">(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.