

PUBLIC DISCLOSURE

April 22, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Liberty Bank
12-06-1766-0000

500 Linden Avenue
South San Francisco, California 94080

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.

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 of **Liberty Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of April 22, 1996. 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's overall CRA (Community Reinvestment Act) performance is rated needs to improve based upon a review of its provision of credit to its community. Evidence was found during the examination that management has not taken an affirmative role in identifying and meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The following table indicates the performance level of Liberty Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>LIBERTY BANK</u>		
	PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio			X
Lending in Assessment Area			X
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes			X
Geographic Distribution of Loans			X
Response to Complaints	No Complaints were received since the prior examination.		

DESCRIPTION OF INSTITUTION:

Liberty Bank has two full-service branches: the bank's main office is located in South San Francisco ("South City") and a branch is located in Boulder Creek, which is approximately 41 miles south of the main office. As of December 31, 1995, the bank had total assets of \$79.027 million which represents a 5.5% (\$74.9 million as of 9/30/94) increase since the previous examination. The bank's asset/loan portfolio mix consists of approximately \$41 million in loans (52%), of which \$34 million is to businesses, and \$27 million in securities (34%).

The South City branch is primarily a commercial real estate lender with few consumer and small business loans. This contrasts the Boulder Creek branch where consumer loans comprise much of the branch's lending activity.

At the previous compliance examination, the bank received an overall satisfactory rating for their CRA performance. However, at this examination, Liberty Bank's CRA performance has declined due to the fact that the bank has the capability to extend credit within the community, but has not actively pursued a lending program that will help meet the community credit needs. Additionally, there are no legal impediments that adversely affect the bank's ability to meet various community credit needs. At this time, the bank has no merger or acquisition plans.

DESCRIPTION OF *South San Francisco*:

South San Francisco occupies approximately nine square miles on the San Francisco Bay and is strategically located between San Francisco's Financial District and Silicon Valley. Almost 30% of the City's land area, or about 1,500 acres, is zoned for commercial and industrial use and about 200 acres are vacant and available in parcels of variable sizes. The Downtown South City area is the center of the City's commercial, cultural and civic life. Merchants and small businesses serve both the local and larger regional market. South City is convenient to all major modes of transportation (Air, Truck, Rail, Highways, Public Transportation, and Water) and is home to over 250 manufacturing businesses such as Genentech, See's Candies, and Orowheat. Non-manufacturing businesses in South City include a diverse mix of service, sales, distribution, executive offices, retail and research and development companies such as Kaiser Hospital, United Parcel Service, and the Price Club.

Liberty Bank's South San Francisco assessment area encompasses all 10 census tracts within the South San Francisco City limits. There are no low-income census tracts, however, the bank has one moderate-income census tract in which the main office is located. Also located within this census tract are many small, family-owned businesses. According to the Community Economic Profile prepared by the South San Francisco Chamber of Commerce, the total population of South San Francisco for 1995-1996 is 57,335 which is not significantly different from 1990 Census data which show the population total at 54,312.

DESCRIPTION OF *Boulder Creek*:

The Boulder Creek branch is located in the northern portion of Santa Cruz County. The bank's assessment area includes census tract 1204.00 which is a middle-income tract with a population size of 9,770.

A description of the Boulder Creek area from the branch's 1995 Business Plan indicates that Boulder Creek is a bedroom community with a projected population growth of 2% per annum over the next five years. Retail business activity is divided among three separate neighboring districts including Boulder Creek, Ben Lomond, and Felton, with a high percentage of retail merchants located in Boulder Creek. Core retail businesses provide groceries and services for the residents' basic needs; however, many of the residents shop and bank outside of the area. It is management's belief that the bank's potential growth is tied to the success of the business community in attracting customers to shop locally. Boulder Creek has a relatively large group of small contractors and small retail merchants which make up the majority of the business segment of the market.

Liberty Bank is the only bank in the Boulder Creek area with the closest bank located eight miles away in Felton.

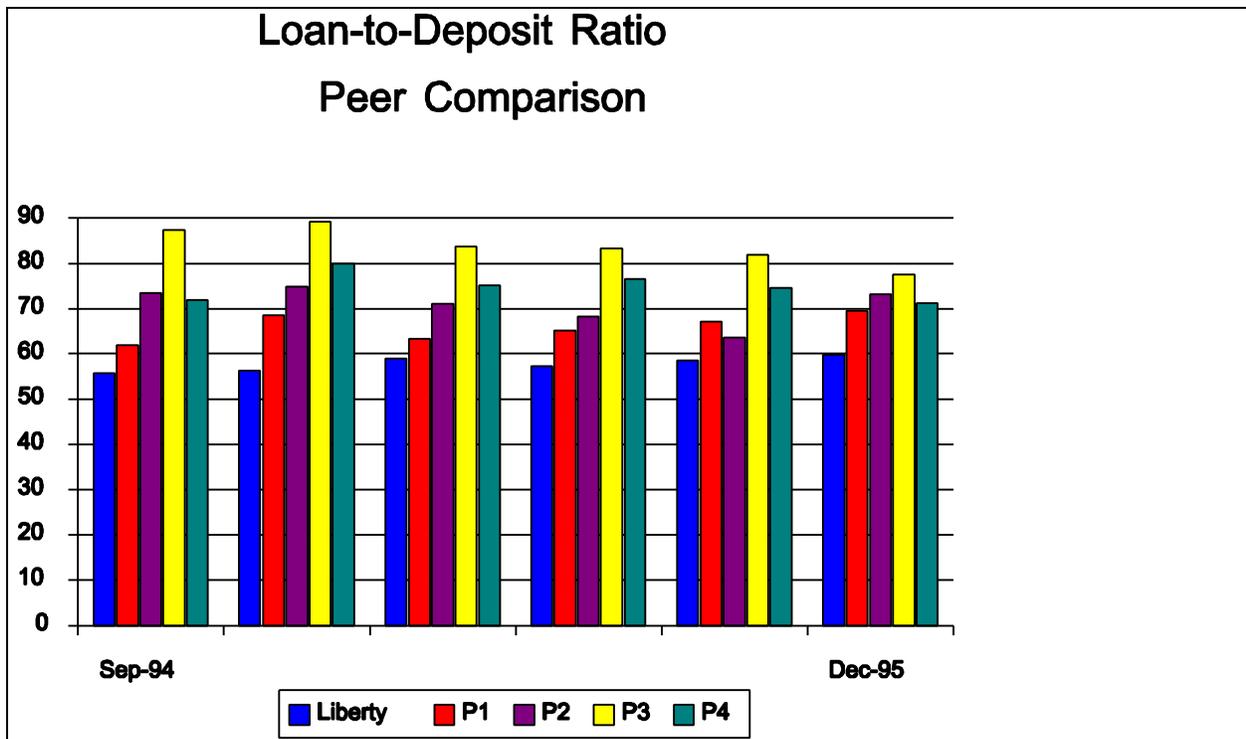
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

A majority of the bank's loan portfolio consists of commercial loans. As a result, the bank's lending pattern was evaluated by sampling business loans extended since the previous examination. The CRA evaluation is based on five performance criteria which consists of the bank's loan-to-deposit ratio, lending in the assessment area, lending to businesses of different sizes, the geographic distribution of loans within the assessment area and the bank's response to complaints. Since the bank did not receive any complaints since the previous examination, the latter criteria was not considered in the bank's overall CRA evaluation.

LOAN TO DEPOSIT RATIO:

The loan-to-deposit ratio used in comparing the bank's performance with those of its peers is the quarterly average since the previous examination. The bank's loan-to-deposit ratio of 58% does not meet the standards exemplified by its peer banks located in close proximity to the bank's assessment area of South San Francisco (there were no similarly situated banks in the Boulder Creek assessment area). The loan-to-deposit ratios of the peer banks ranged from 66% to 84%.

As the graph indicates, the bank has historically maintained a lower loan-to-deposit ratio than its peers. There are no legal impediments that adversely affect the bank's ability to meet various community credit needs in a manner consistent with its resources and capabilities.

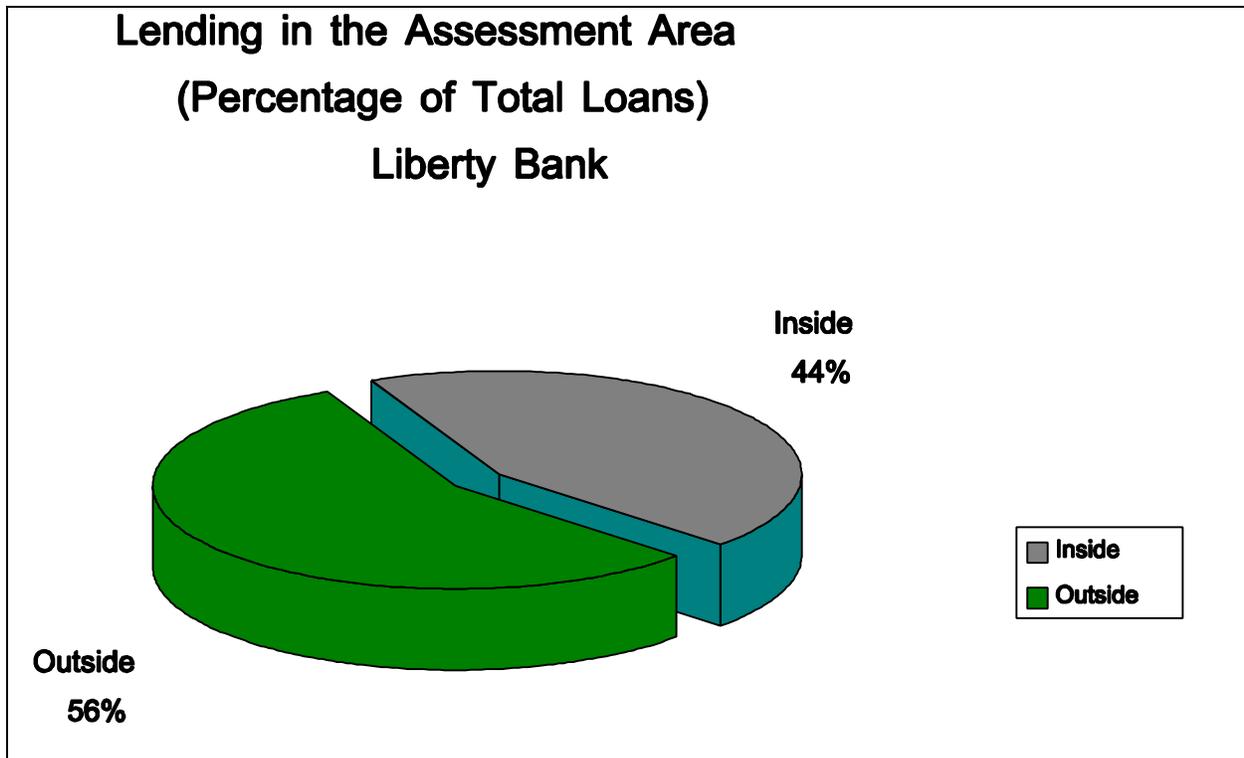


LENDING IN ASSESSMENT AREA:

The bank's lending pattern of loans to businesses within the assessment area does not meet standards for a satisfactory performance. Of the 59 loans sampled by examiners, 44% (26) were made inside the assessment areas and 56% (33) were located outside the assessment areas. Although the total dollar amount (52%) of loans is higher inside the assessment area than outside the assessment area, the difference is not significant. The bank's own analysis of loans extended for a one-year period (October 1994 through

October 1995) also supports the examination findings which reveal that less than a majority of all loans are made inside the assessment area.

According to members of the community, local lending opportunities are available as small businesses surrounding the bank's South San Francisco branch have credit needs for small dollar loan amounts. The results of the bank's lending performance within the assessment area is indicative that the bank is not responsive to the credit needs of the businesses within its assessment area.



LENDING BY BUSINESS REVENUE:

In determining the bank's lending to businesses of various sizes within the assessment area, the gross revenues of the businesses were collected and analyzed. Of the 26 commercial loans extended in the bank's assessment areas of South San Francisco and Boulder Creek, only 31% (8) were extended to businesses with gross revenues of less than \$1 million. The eight loans extended to small businesses account for only 20% of the total dollar amount of business loans extended since the previous examination. Furthermore, in an area in which many small businesses are located, Liberty Bank has demonstrated poor lending performance in extending credit to small businesses. The following table breaks down the bank's business lending:

	Total Loans in Assessment Area	Loans to Small Businesses	Loans to Large Businesses
Total Number	26	8	18
% of Total Number	100%	31%	69%
Total Amount of Loans	\$3,565,533	\$720,286	\$2,845,247
% Total Amount of Loans	100%	20%	80%

GEOGRAPHIC DISTRIBUTION OF LOANS:

An analysis of the bank's distribution of loans among geographies of different income levels was conducted to determine whether any gaps existed in certain geographies. The bank's lending performance was also evaluated in relation to the location of small businesses within the assessment area. Since the bank is primarily a business lender, more emphasis was placed on the analysis of loan distribution based on the location of small businesses within the assessment area rather than the distribution of loans among geographies of different income levels.

The bank's assessment area is comprised of 11 census tracts; ten in the South San Francisco and one in Boulder Creek. Of the 11 census tracts, one (9%) is moderate-, nine (82%) are middle-, and one (9%) is upper-income. There are no low-income census tracts in either assessment area. Of the 26 business loans made in the assessment area, one (4%) loan was made in the only moderate-income census tract compared to 25 (96%) made in the middle-income census tract. The following table breaks-down this distribution:

Census Tract Category	Number of Loans	Percentage of Loans	Number of Census Tracts	Percentage of Census Tracts
Low	N/A	N/A	N/A	N/A
Moderate	1	4%	1	9%
Middle	25	95%	9	82%
Upper	0	0%	1	9%

Although the bank's geographic distribution of loans compares favorably to the distribution of census tracts within the assessment areas, a more meaningful analysis compares the penetration of business loans extended in the areas where small

businesses are located. Examiners toured the bank's South San Francisco assessment area and identified many small businesses along Grand Avenue between Spruce Avenue to the west, Airport Boulevard to the east, Lux Avenue to the north and Railroad Road to the south. The area is a moderate-income census tract as identified by the Bureau of the Census and is also where the South San Francisco branch is located. In relation to the location of the small businesses within the moderate-income census tract, and considering the bank's record of extending one loan in this census tract since the previous examination, the bank's lending performance in this moderate-income area is poor.

RESPONSE TO COMPLAINTS:

The bank did not receive any complaints about its CRA performance; therefore, the institution's record of taking action in response to such complaints could not be evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations including the Fair Housing Act, Equal Credit Opportunity Act and the Home Mortgage Disclosure Act. Although the examination identified violations of both the Equal Credit Opportunity Act and the Home Mortgage Disclosure Act, the violations were technical in nature and did not have a discriminatory effect. A review was also made of the bank's credit policy, procedures, and practices and there was no evidence to indicate discriminatory treatment of credit applicants based on a prohibited basis. The bank has kept abreast of changes which affect anti-discrimination laws and regulations, including the Equal Credit Opportunity Act, through various consumer compliance references and manuals.

A review of the bank's application and credit evaluation procedures indicated that the bank is not engaged in any practices intended to discourage applications for the types of credit that Liberty Bank offers. In addition, the bank's credit application forms are in compliance with regulatory requirements and do not contain language which would discourage applicants.