

PUBLIC DISCLOSURE

March 17, 1997

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 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 March 17, 1997. 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:

Since the previous examination, bank management expanded their South San Francisco assessment areas to cover most of San Mateo County. As a result, a larger percentage of the bank's loans was captured in the bank's CRA analysis. More importantly, the bank significantly improved its record of lending to businesses of all sizes. The bank also extended consumer loans to low- and moderate-income borrowers living within the community. Although measurable improvement was noted since the previous examination in April, 1996, the institution's performance continues to be rated needs to improve based upon its record of lending into geographies of all income levels. Although the bank's main office is located within a moderate-income census tract, less than 4% of the bank's loans made since the previous examination were extended within a moderate-income census tract. In addition, the bank continued to have the financial capacity to increase its level of lending within its community.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	PERFORMANCE LEVELS for <u>Liberty Bank</u>		
	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, a wholly-owned institution, continues to operate its two full-service offices: its main office in South San Francisco, San Mateo County, and a branch in Boulder Creek. In addition, the bank opened a new limited-service supermarket branch in Ben Lomond in July, 1997. (Credit applications are forwarded to the Boulder Creek Office.) Both branches are located approximately 45 miles to the south of the main office, in Santa Cruz County. As of December 31, 1996, the bank had total assets of approximately \$87 million, which was a 10% increase in assets since the previous examination. Most of that increase occurred through the bank's investment of new deposits into securities, which grew approximately 32% in 1996. At year-end 1996, the bank's loan portfolio comprised only 46% of the bank's total assets.

The bank's primary business focus has historically been commercial-purpose, real estate-secured loan transactions. Gradually, bank management has been shifting its focus to include more non-real estate secured commercial loans as well as consumer loans. To help achieve this goal, the bank has introduced a new home equity loan product and a discounted-rate product for consumers who make their loan payments electronically from a Liberty Bank checking account. The main office, which continued to generate the most loan volume, primarily extended business-purpose loans. As of December 31, 1996, 86% of the bank's \$39.6 million loan portfolio was comprised of commercial or industrial loans (13%) or loans secured by non-residential, non-farm real property (73%). In contrast to the main office, the Ben Lomond and Boulder Creek offices engaged in significantly more consumer lending. Bank-wide, consumer lending comprised only about 4% of the total loan portfolio.

Bank management explained that the bank's target lending market is primarily the city boundaries of South San Francisco and the San Lorenzo Valley. According to bank management, lending extended outside the bank's target market stemmed primarily from loan requests by existing customers, customers who have relocated down the peninsula, and referrals from these existing customers.

At the previous examination, the bank received a needs to improve rating in all four lending criteria. In the eleven months between the prior and this examination, management strategies have been able to improve the bank's performance in two of the four criteria; however, this improvement was insufficient to raise the bank's overall lending performance to a satisfactory level. At the time of this examination, there were no legal impediments that adversely affected the bank's ability to meet the credit needs of the communities in which the branch offices are located and the bank had no merger or acquisition plans.

DESCRIPTION OF *San Mateo County Assessment Area:*

San Mateo County covers roughly 447 square miles, with a population of approximately 700,000. Almost 74% of the county is reserved for open space. Due to the county's large geographic size, Liberty Bank's Main Office assessment area is comprised of 111 (70%) of the county's 158 census tracts, clustered along the eastern half of the county. Cities within this geographic region include: Daly City, Colma, South San Francisco, San Mateo, San Bruno, Millbrae, Burlingame, Hillsborough, Foster City, Belmont, San Carlos, and Redwood City. The eastern half of the county borders the San Francisco Bay and contains the county's primary population, transportation and business corridors. Two interstate freeways, 101 and 280, traverse this portion of the county, connecting communities in a north-south direction. The main office is located near the northern end of the county, between these two freeways.

The bank's assessment area is relatively affluent in comparison to the surrounding communities. In 1990, the median family income for the assessment area was \$70,879, significantly higher than the county's \$53,000 median family income. According to the San Mateo County Economic Development Agency (SAMCEDA), by 1996, the county median income had risen to \$56,000, suggesting that the assessment area median income has also increased. Of the almost 182,000 people within the assessment area as of the 1990 census, almost 40,000 (22%) were classified as low- or moderate-income. The county's population has been growing about .5% a year.

At the time of this examination, the local economy was strong and unemployment levels remained low. According to SAMCEDA, the unemployment rate for San Mateo County in December, 1996 was only 2.6%, well below the state (6.2%) or national (5%) unemployment rates. Together with the county's location between two urban centers, San Francisco and San Jose, and its excellent transportation facilities, the county's highly educated labor force and diversified economy have historically enabled the county to resist economic downturns that have impacted other areas of the state. The county's largest employers include: United Airlines, the county government, Raychem (chemical), Oracle Corp. (computer software), U.S. Post Office, and Genentech, Inc. (biotech). Most of the businesses in San Mateo County are fairly small. In 1992, the county had 18,721 businesses, 13,888 (74%) of which had fewer than ten employees.¹ A more recent number provided by SAMCEDA as of January, 1997 indicated that there were currently over 23,400 businesses, with concentrations in biotechnology and environmental services.

Although these figures are at the county level, community representatives from the city governments and economic development agencies located near the bank's office were interviewed for a local perspective. The contacts indicated that there are numerous small businesses with small dollar credit needs in close proximity to the bank's main office. In South San Francisco, for example, the local chamber of commerce has approximately 500

¹ Source: Redwood City Analysis of Dun & Bradstreet database and the U.S. Department of Commerce "County Business Patterns" 1992; Sedway Kotin Mouchly Group.

business members, and approximately 1500 acres has been zoned for commercial and industrial use, of which about 200 acres are vacant and available in parcels of various sizes. A contact from the City of South San Francisco explained that businesses, particularly those in the downtown area, need small dollar amount loans, particularly in amounts less than \$5,000, for working capital and equipment. In neighboring Daly City, there are approximately 4,500 licensed businesses, approximately 1,000 of which are operated out of the business owners' residence. Interviews with a city official revealed that small, local businesses need commercial loans in amounts under \$20,000 as well as technical assistance on how to qualify for a commercial loan. Although financial institutions are prevalent around the Serramonte and the Civic Center areas, certain neighborhoods in Daly City, such as the Bayshore District and along Mission Street, have been identified by the city and local business owners as relatively underserved by the financial institutions in the community.

DESCRIPTION OF *The San Lorenzo Valley Assessment Area*

Located in the northern portion of Santa Cruz County, the San Lorenzo Valley is approximately nine miles long and contains small, middle-income communities along Highway 9, including: Boulder Creek, Brookdale, Ben Lomond, and Felton. The Henry Cowell Redwoods State Park comprises a significant portion of the valley. An interview with a local business owner estimated that there were between 500 and 600 small businesses located in the valley. The businesses tend to be small, retail or tourist oriented owner-operated businesses, subject to seasonal economic fluctuations. As many of these businesses are owner-funded, they generally require small dollar amount loans and operating lines, between \$5,000 and \$10,000. The community tends to be low-growth oriented.

The assessment area represents less than 10% of the total census tracts in Santa Cruz County. The assessment area contains only seven census tracts, three middle-income and four upper-income. As of 1990, the population in these seven census tracts was 11,219. The community contact estimated that the community had grown to over 12,000 since the most recent census. The community is fairly affluent, with a 1990 median family MSA income of \$53,400, which is significantly higher than the Santa Cruz MSA figure of \$43,000. Although housing is expensive, with a median housing value of almost \$250,000, two-thirds of the housing units in the assessment area are owner-occupied. Approximately 3,000 (26%) families are considered either low- or moderate-income, with approximately 5% of the households below the county poverty level.

Liberty Bank continues to be the only bank in both Boulder Creek and Ben Lomond. After a competitor closed its branch office in Felton, Liberty Bank's nearest competitors are located within Scotts Valley several miles to the east. Scotts Valley also lies within the bank's assessment area but has little in common economically with the San Lorenzo Valley. Scotts Valley is an upper-income, growth-oriented, high-tech community with close social and economic ties with Santa Clara County. Scotts Valley has several large employers, such as Borland and Seagate, and also serves as a "bedroom" community for commuters working in San Jose.

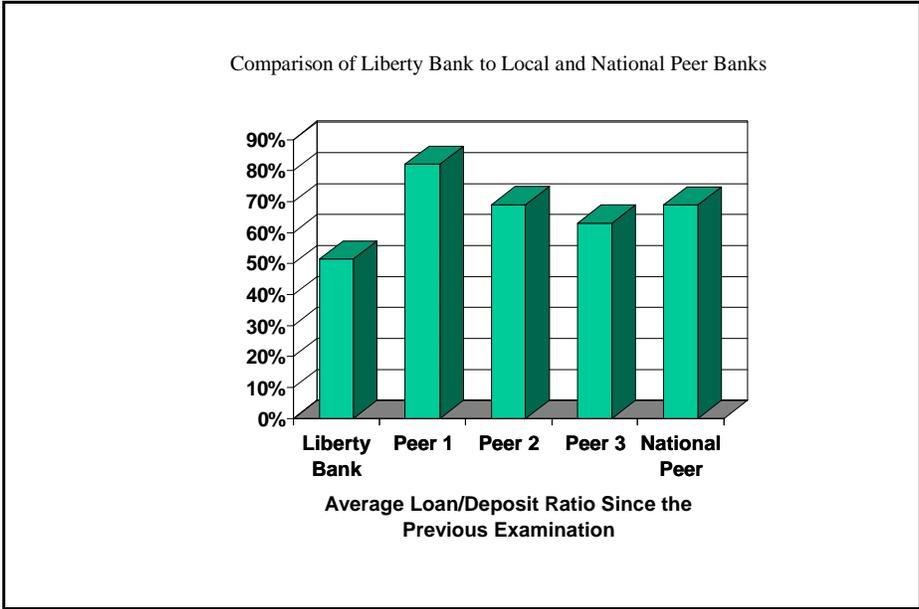
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

There are five performance criteria considered under the small bank streamlined CRA evaluation: the bank's average loan-to-deposit ratio, its lending within its assessment areas in comparison to its total lending, the distribution of lending to borrowers of different income levels and to businesses of different sizes, the geographic distribution of its loans within its assessment areas, and finally, the bank's responsiveness to complaints about its CRA performance. In assessing the bank's overall rating, two factors, the geographic distribution of the bank's lending and the bank's lending to borrowers of different income levels and businesses of different sizes, were weighed more heavily than the other factors.

LOAN TO DEPOSIT RATIO:

In analyzing the bank's loan-to-deposit ratio, a quarterly average for the quarters from March 31, 1996 through December 31, 1996 was calculated. During this time, the bank's average loan-to-deposit ratio declined from 58% at the prior examination to 51%. Bank management explained that the decline in their loan-to-deposit ratio was primarily caused by a significant increase in total deposits and a gradual decrease in outstanding dollars lent, as large, existing loans paid off and new, smaller dollar amount loans were extended in their place. Actual loan volume, measured by the number of new loans extended, actually increased (8%) from 138 loans in 1995 to 149 loans in 1996. In both years, approximately two-thirds of the bank's loans were new credit extensions and one-third were either refinancing or renewals of existing loans. There are no legal impediments that adversely affect the bank's ability to meet the various community credit needs in a manner consistent with its resources and capabilities.

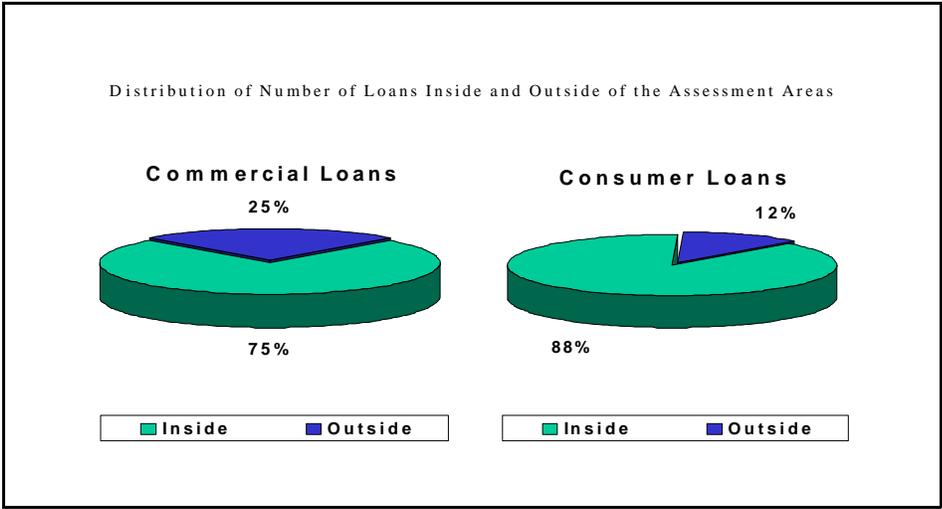
For comparison purposes, examiners selected several commercial banks within San Mateo County which had a similar asset size, balance sheet composition, target markets, branch networks, and major product lines. There were no similarly situated banks available in the San Lorenzo Valley assessment area. Using the similarly situated institutions in San Mateo, whose average loan-to-deposit ratios ranged between 63% and 82%, Liberty Bank's ratio of 51% did not compare favorably to any of these peers. On a larger scale, the bank's loan-to-deposit ratio also compared unfavorably to the national and state peer averages, both of which were over 65%.



The bank continues to have the financial resources available to increase its level of lending within its communities.

LENDING IN ASSESSMENT AREA:

The bank's responsiveness in lending to individuals and businesses within its two assessment areas meets the standards for a satisfactory performance. During the eleven months examined, the bank extended 63 of its 84 (75%) commercial loans and 50 of its 57 (88%) consumer loans within its assessment areas. The percentage of all dollars lent within the community was also 75%. Given the relatively large geographic size of the bank's San Mateo Assessment Area and the relatively isolated nature of its San Lorenzo Valley Assessment Area from the rest of the Santa Cruz County and the credit needs identified within those assessment areas, a relatively high percentage of lending within the assessment areas was expected.



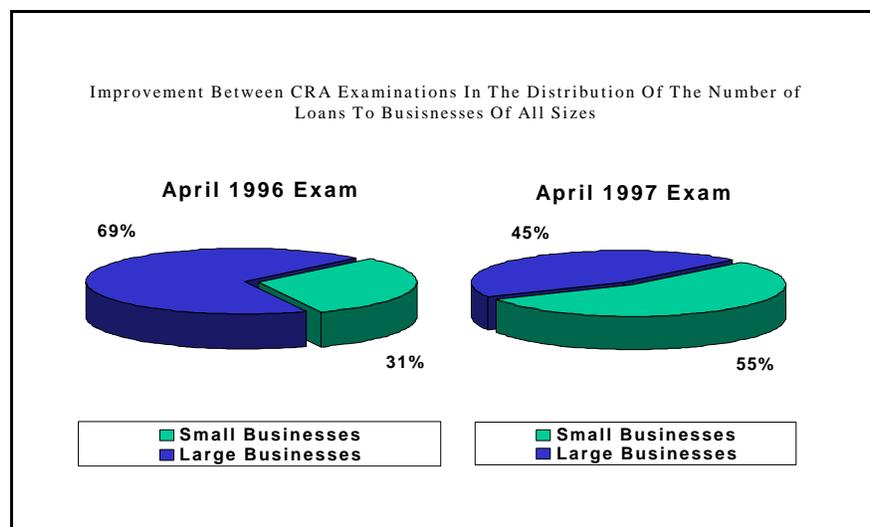
LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:

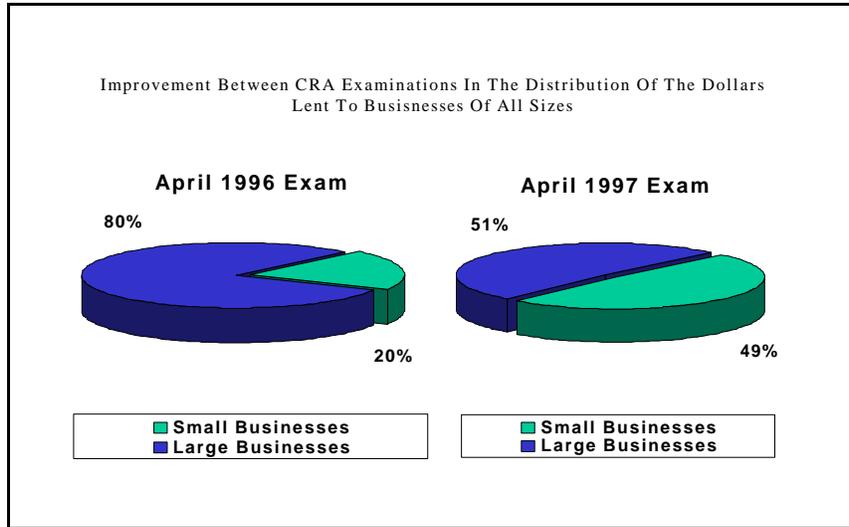
To determine the bank's record of lending to businesses of various sizes within its assessment areas, examiners collected and reviewed the gross revenues of the bank's commercial loan customers and compared them to the types and sizes of the businesses within the bank's communities. In addition, examiners compared the gross annual incomes of the bank's consumer borrowers to the number and percentage of low-, moderate-, middle- and upper-income families living within the bank's assessment areas. Because loans to low- and moderate-income individuals and loans to small businesses tend to have smaller dollar amounts, greater weight was given to the percentage distribution based on the number of loans rather than the overall dollar volume.

Businesses of Different Sizes

Sixty-three commercial purpose loans were extended within the bank's assessment areas, three of which were excluded from analysis because their loan amounts were either over \$1 million or the business revenues were not available. The remaining 60 commercial loans totalled almost \$6.4 million. Of these 60 loans, 33 (55%) loans totaling \$3.1 million (48%) were extended to businesses with gross revenues less than \$1 million.

Using the number of employees as a proxy for the size of a business' revenues, approximately 74% of the businesses in San Mateo County have fewer than 10 employees. Although employment statistics were not available for the San Lorenzo Valley, the community contact stated that almost all the businesses within the San Lorenzo Valley are small. In comparison to the sizes and types of small businesses in the community, the bank's percentage of loans to small businesses was relatively low; however, bank management significantly improved its record of lending to small businesses since the previous examination from only 31% of its total commercial loans and 20% of its loan dollars.





Additionally, 26 of the 33 (79%) loans to small businesses were extended in amounts under \$100,000 and four (12%) of those loans were extended in amounts less than \$20,000, which are amounts contacts within the community indicated were most needed by many small businesses within the bank's community. By extending these small dollar loans, the bank has successfully helped to meet this need.

Borrowers of Different Incomes

Fifty consumer loans, of all types, totalling \$2.1 million were extended within the bank's two assessment areas. For analysis, the assessment area population was divided into four income groups; low- moderate-, middle- and upper-income, based on the median income of the Metropolitan Statistical Area (MSA). The assessment areas are located in two different MSAs, each having a 1996 HUD-adjusted median family income: the San Mateo MSA (7360) was \$61,300 and the Santa Cruz MSA (7485) was \$53,100. By definition, the income categories are as follows:

- low-income less than 50% of MSA median family income
- moderate-income between 50% and 79% of MSA median family income
- middle-income between 80% and 119% of MSA median family income
- upper-income 120% or more of MSA median family income

For comparison purposes, examiners used households rather than family units, as over 30% of the households in both assessment areas would have been excluded from consideration had families been used.

The majority (74%) of consumer lending occurred within the San Lorenzo Valley; therefore, the bank's performance in that assessment area was considered more heavily than that in the San Mateo assessment area. The percentage of low- and moderate-income households in the San Lorenzo assessment area is 12% and 14%, respectively. Approximately 5% of the assessment area households in Santa Clara County fell below

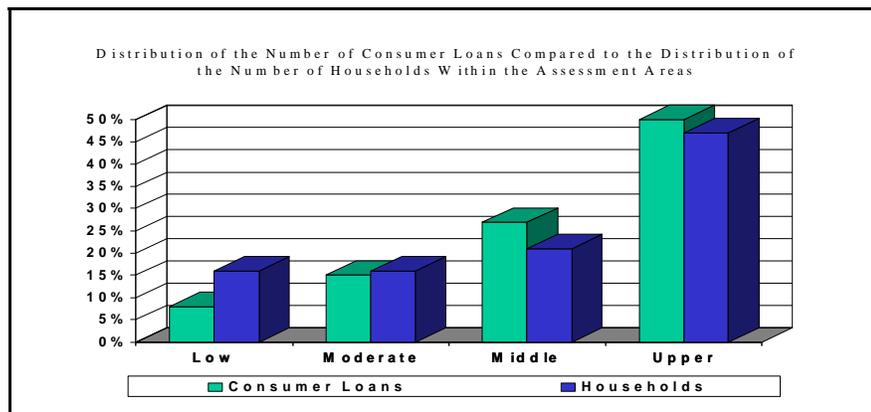
the county's poverty level. As depicted in the following table, the number and dollar amount of loans originated by the bank to both low- and moderate-income borrowers, but particularly low-income borrowers, fell short of the distribution of low-income borrowers as a percentage of the assessment area population.

Lending to Borrowers of All Income Levels By Assessment Area:

Assessment Area	Percentage of Lending and Households in Assessment Areas							
	Low Income		Moderate Income		Middle Income		Upper Income	
	#	\$	#	\$	#	\$	#	\$
San Lorenzo Valley Lending	6%	7%	11%	10%	31%	22%	51%	61%
San Lorenzo Valley Households	14%		13%		20%		54%	
San Mateo County Lending	15%	1%	23%	5%	15%	3%	46%	91%
San Mateo Households	17%		16%		21%		46%	

The bank's overall record of lending to consumers of all income levels compared unfavorably, but not unreasonably, to the percentage of low-income households in the assessment areas. One mitigating factor for this disparate penetration is that 5% of the households fell below the poverty line, suggesting that a portion of the low-income households would have a difficult time qualifying for credit. As evidenced by the following graph depicting the bank's overall consumer lending, although the bank's percentage of lending to low-income households in the San Mateo assessment area was much higher, the lower volume was insufficient to significantly raise the overall percentages.

Overall Lending to Borrowers of Different Income Levels:

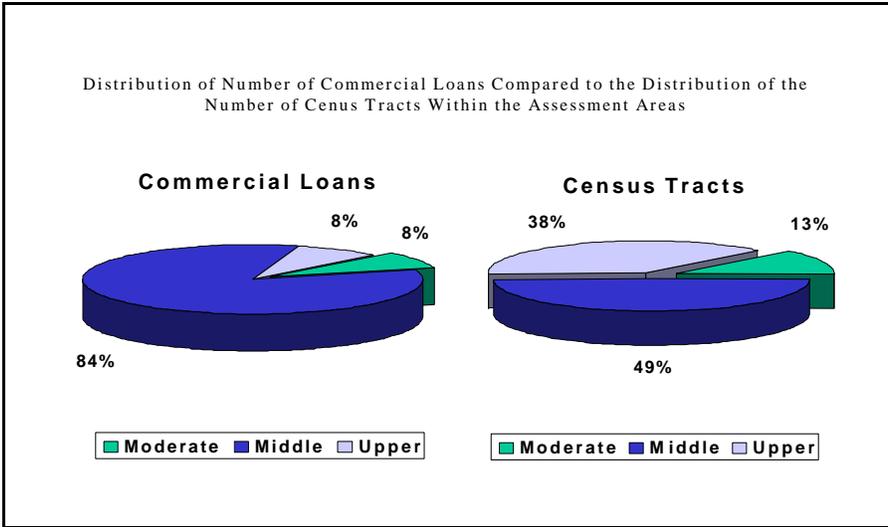
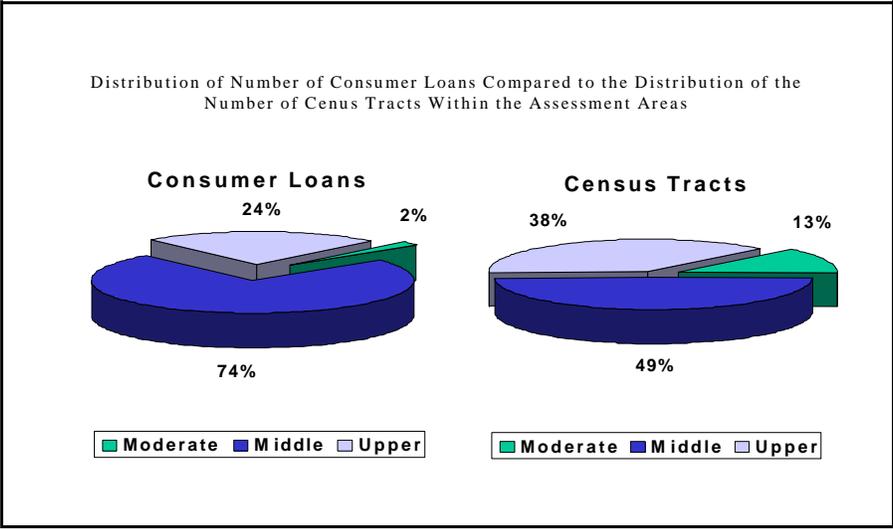


Although the bank's consumer lending tended toward middle- and upper-income borrowers, the bank's lending to small businesses improved dramatically since the previous examination. Given bank management's relatively new focus on consumer and non-real estate secured commercial lending, the bank has demonstrated a commitment to improving its record of lending to businesses of all sizes and to borrowers of all income levels within its assessment area. Based on the bank's improvement in the eleven months since the previous examination, the bank's record of lending to businesses of all sizes and borrowers of different income levels met standards for a satisfactory performance.

GEOGRAPHIC DISTRIBUTION OF LOANS:

In the San Mateo assessment area, the bank's geographic distribution of loans was evaluated in a similar manner to the bank's the lending performance to businesses of different sizes and borrowers of different income designations. Information about the population and the types and sizes of businesses was gathered and considered for the census tracts within the bank's assessment area, particularly those in close proximity to the branches relative to the bank's lending distribution. This information was compared to the number of loans extended within the census tracts of the four income level categories. The San Lorenzo assessment area was not evaluated as there are no low- or moderate-income census tracts within that community.

The bank's main office is encircled by mostly moderate- and middle-income census tracts. There are 14 (13%) moderate- and 54 (49%) middle-income census tracts. There is one low-income tract, but it has zero population and contains San Francisco Airport, limiting the lending opportunities available within that geographic area. There are 42 (38%) upper-income census tracts which are primarily located south of the airport, extending down the peninsula away from the main office. Due to their relative distance away from the branch, a lower penetration into upper-income tracts would be expected. As illustrated by the following graphs, the bank's percentage of lending in moderate-income tracts, relative to its total lending and their close proximity to the main office, is lower than expected for both consumer and commercial loans. By dollar amount, these percentages were even lower.



Additionally, the bank's penetration into the various moderate-income tracts is also fairly low in comparison to its penetration into middle- and upper-income tracts. The bank extended loans into only one of 14 (7%) moderate-income census tracts, 12 of the 54 (22%) middle-income tracts and four of 42 (10%) upper-income tracts. As moderate- and middle-income census tracts are closer to the main office than the upper-income tracts, and lending opportunities exist in those census tracts, a higher penetration into those tracts than in the upper-income tracts was expected.

Bank management explained that they had been targeting their marketing efforts to the City of South San Francisco and the San Lorenzo Valley; therefore, there were no new loans generated in the moderate-income census tracts outside of the one moderate-income census tract in which the main office is located; however, slightly less than 50% of the loans generated by the main office are extended within South San Francisco. The

remainder of loans within the San Mateo assessment area are scattered down the peninsula, clustered in cities such as Burlingame and Foster City.

In conclusion, although improvement since the prior examination has been noted, the bank's level of lending within moderate-income census tracts does not meet the standards for a satisfactory rating.

RESPONSE TO COMPLAINTS:

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, this performance criterion was not evaluated.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Equal Credit Opportunity Act and the Fair Housing Act. The bank has not originated any purchase mortgage loans since the previous examination and, thus, is not currently subject to the Home Mortgage Disclosure Act. While there were violations of the Equal Credit Opportunity Act, they were technical in nature and did not have a discriminatory effect. Moreover, a review of the bank's loan distribution, loan officer interviews and credit evaluation procedures indicated that applicants are not discouraged from requesting the types of credit offered by the bank. The policies, procedures and training programs developed by the bank adequately support non-discrimination in lending.