

# **PUBLIC DISCLOSURE**

**February 9, 1998**

## **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.*

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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 Community Reinvestment Act (CRA) performance for **Liberty Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **February 9, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

**Institution's CRA Rating:** Liberty Bank's CRA performance is satisfactory.

### **BASIS FOR RATING:**

Liberty Bank's has an overall satisfactory performance in meeting the credit needs of its entire community. The bank continues to improve its performance of lending to businesses of different sizes and to borrowers of different income levels, as well as in the geographic distribution of its small business and consumer loans within its assessment areas. In addition, a majority of the bank's small business and consumer lending was made within its assessment areas. However, the bank's loan-to-deposit ratio remains low relative to the ratios of similarly situated peers indicating that the bank has the financial capacity to increase its level of lending within its community.

Two isolated violations of the technical provisions of the Equal Credit Opportunity Act were identified during the concurrent Compliance examination. The overall CRA rating was not influenced by those findings.

### **DESCRIPTION OF INSTITUTION:**

Liberty Bank began operations on April 7, 1982, with an office located in the city of South San Francisco, in San Mateo County. The bank expanded its operations to Santa Cruz County opening a full-service branch in Boulder Creek, in July 1989; and a limited-service office in Ben Lomond in July 1996. Both branches are approximately 45 miles south of the main office. Liberty Bank is a local, independent, full-service community bank with total assets of approximately \$94 million as of September 30, 1997. This represents an 8% increase in assets since the previous examination of March 17, 1997. Approximately 50% of the bank's total assets are comprised of its loan portfolio.

Since its inception, Liberty Bank has been primarily a commercial lender, focusing on real estate-secured loan transactions. Currently, bank management is attempting to expand the bank's business focus by becoming more of a consumer lender. To accomplish this goal, Liberty Bank began offering home equity lines of credit approximately two years ago; however, commercial loans are still the bank's dominant product, representing about 86% of the loan portfolio. As of September 30, 1997, the \$47 million loan portfolio was primarily comprised of commercial and industrial loans (20%) and loans secured by non-residential, non-farm real estate (66%). The branches generate more consumer loans than the main office; however, consumer loans account for only 1% of the loan portfolio, based on dollar amount.

Liberty Bank emphasizes relationship banking and much of its business results from referrals. Management indicated that several loans extended outside the defined market were to South San Francisco business customers who had relocated their businesses farther down the San Francisco Peninsula, while maintaining their banking relationships with Liberty Bank.

At the previous examination, the bank's CRA performance was rated needs to improve. Since the previous examination, the bank's performance has improved sufficiently to raise its overall lending performance to a satisfactory level. Liberty Bank is not restricted by any legal impediments that would adversely affect the bank's ability to lend.

#### **DESCRIPTION OF BANK'S ASSESSMENT AREAS:**

Liberty Bank has designated two relatively affluent assessment areas, one in San Mateo County and one in Santa Cruz County. These non-contiguous counties are located within the San Francisco, California MSA and the Santa Cruz-Watsonville, California MSA. Neither assessment area is an entire county.

#### **DESCRIPTION OF SAN MATEO COUNTY ASSESSMENT AREA:**

The San Mateo County assessment area is a relatively large area located on the San Francisco Peninsula. San Mateo County itself is 552 square miles and is bordered by the City of San Francisco on the north, the San Francisco Bay on the east, Santa Clara County on the south, and the Pacific Ocean on the west. Two major freeways traverse the county north and south, providing access to the county. Due to the county's large geographic size, Liberty Bank's assessment area is comprised of 111 (70%) of the county's 158 census tracts, representing the eastern half of the county. Twelve of San Mateo County's twenty-four cities are included in the assessment area: Daly City, Colma, South San Francisco, San Mateo, San Bruno, Millbrae, Burlingame, Hillsborough, Foster City, Belmont, San Carlos, and Redwood City. The main office is located near the northern end of the county.

San Mateo County's population is increasing. The county's population grew 11% between 1980 and 1990, and stood at 649,628 at the time of the 1990 census. According to the San Mateo County Economic Development Agency (SAMCEDA), by January 1997, the population was 701,100. The Association of Bay Area Governments predicts continued growth stating that by the year 2010, San Mateo County will have 739,000 residents. Slow growth or anti-growth

movements are popular in many cities and may affect how rapidly the population increases. Also, land for new residential construction is becoming scarce which would further slow any population growth.

The bank's assessment area is slightly more affluent than the San Francisco Metropolitan Statistical Area (MSA) and the state. According to 1990 census data, the median family income in the assessment area was \$52, 843, higher than both the MSA (\$49,282) and the state (\$40,559). According to San Mateo County Economic Development Agency (SAMCEDA), by December 1996, the county median income had risen to \$64,700, suggesting that the assessment area median income had risen as well. Of the 122,163 families living in the assessment area during the 1990 census, 39,543 (32.3%) were classified as low- or moderate-income.

Comments from community contacts and low unemployment statistics suggest that the economy is strong in San Mateo County. The Employment Development Department's 1997 annual average unemployment rate for San Mateo County was 2.7%, significantly lower than both the state and the national averages of 6.3% and 4.9%, respectively.

Liberty Bank's main office location, South San Francisco, is a blue-collar community where an economic transition is occurring. According to a community contact, the city has difficulty in keeping and attracting businesses that have blue-collar jobs for residents. Additionally, growth in recent years has focused on the information-based economy, as more high technology and service firms have located to the eastern portion of the city, displacing blue-collar workers. According to a community contact in city government, with Genetech serving as a major high-technology/biotechnology anchor to the east of US 101 area, other biotech and pharmaceutical firms have located, or are planning to locate, in South San Francisco. Liberty Bank does not market or lend to biotechnology companies because of the technological expertise needed to underwrite loans to high tech companies and the size of the credit requests.

Currently, five of the ten largest employers in South San Francisco are biotechnology firms. However, two thousand hotel rooms are under construction, which will create minimum pay employment in the service sector. Other major employers in South San Francisco are See's Candies, Orowheat Bakery, Crown Zellerbach, and the U. S. Postal Service. By categories, the largest employers in San Mateo County are services, retail trade, finance, insurance, real estate, transportation-utility, and manufacturing.

Liberty Bank views its local competitors as First National Bank of Northern California, Metropolitan Commerce and SumitomoBank. Two of the state's largest banks, Bank of America and Wells Fargo, also operate full service branches in South San Francisco.

#### **DESCRIPTION OF THE SAN LORENZO VALLEY ASSESSMENT AREA:**

The San Lorenzo Valley assessment area represents a small portion (11%) of Santa Cruz County. It is comprised of several middle-income communities including Boulder Creek, Brookdale, Ben Lomond, and Felton surrounded by mountains and redwoods. Upper-income Scotts Valley also lies within this assessment area. The Henry Cowell Redwoods State Park comprises a large part of the Valley.

The assessment area contains only seven census tracts: three middle-income and four upper-income tracts. The 1990 census counted 25,140 people in the San Lorenzo Valley. Boulder Creek, Ben Lomond, and Felton have approximately 12,000 families, according to 1990 census data. Median family income for the assessment area was \$53,424, which is significantly higher than both the \$43,131 MSA income and the \$40,559 state-median family income. Almost 3,000 (26%) families are considered low- or moderate- income, while the poverty level of 3% is significantly lower than the state average of 9.3%.

Small businesses and home businesses have a presence in the valley. The San Lorenzo Valley Chamber of Commerce estimates that 500 to 600 small businesses are located in area. The majority of these businesses are small retail or tourist oriented owner-operated businesses. An increasing number of software or high technology businesses are also operating from homes in the valley as an extension of Silicon Valley. These businesses generally need small dollar loans or operating lines of \$5,000 to \$10,000. The business community also needs retail banking services.

Some communities in the San Lorenzo Valley assessment area only have one bank. For example, Liberty Bank is the only financial institution in Ben Lomond and Boulder Creek. A representative from the San Lorenzo Valley Chamber of Commerce indicated that many residents in Ben Lomond and Boulder Creek rely on Liberty Bank. 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:**

In order to evaluate Liberty Bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, examiners analyzed the bank's lending performance. Information from bank management, community contacts, economic and census data were used to formulate the performance context in which this performance was measured.

There are five performance criteria considered under the small bank CRA evaluation: the bank's average loan-to-deposit ratio, its lending within its assessment area 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 the assessment area, and the bank's responsiveness to complaints regarding its CRA performance. In assessing the bank's overall rating, two factors, the bank's lending to businesses of different sizes and borrowers of different incomes and the geographic distribution of the bank's lending were weighted more heavily than the other factors. The bank's lending to businesses of different sizes and borrowers of different incomes was weighted most heavily since the San Mateo assessment area has relatively few moderate-income tracts and no populated low-income tracts. Therefore, Liberty Bank has more lending opportunities to low- and moderate-income borrowers and small businesses than lending opportunities in low- and moderate-income census tracts.

Additionally, the San Lorenzo Valley assessment area has no low- or moderate-income tracts. Geographic distribution was weighted second to analyze whether the bank had improved its penetration to moderate-income census tracts since the previous examination. Since the bank did not receive any written complaints about its CRA performance during the period under review, this criterion was not used in the evaluation.

#### **LOAN-TO-DEPOSIT RATIO:**

The bank's loan-to-deposit ratio of 54% compares unfavorably to the ratios of its local peer banks. In analyzing the bank's loan-to-deposit ratio, examiners used a quarterly average for the three-quarters from March 30, 1997 to September 30, 1997. The December 31, 1997 loan-to-deposit quarterly average was unavailable during the examination. For this analysis, the bank's net loans were measured against total deposits. The average loan-to-deposit ratio for the period under review was 54%. This ratio is an increase from the average loan-to-deposit ratio of 51% at the previous examination. Examiners compared the bank's loan-to-deposit ratio to the ratios of two similarly situated local banks. These banks were selected on the basis of similarities in asset size, branch network, targeted market, and major product lines. Ratios for the local peer bank were 77% and 82%, which is significantly higher than Liberty Bank's averages.

On a broader scale, the bank's loan-to-deposit ratio was compared to its national peer banks for the same three-quarter period. The national peer banks had an average loan-to-deposit ratio of 71%; Liberty Bank's loan-to-deposit ratio of 54% again compared unfavorably. Considering the bank's asset size, market strategy, lending capacity, and the lending opportunities available in the assessment area, the bank continues to have the financial resources available to increase its level of lending within the community.

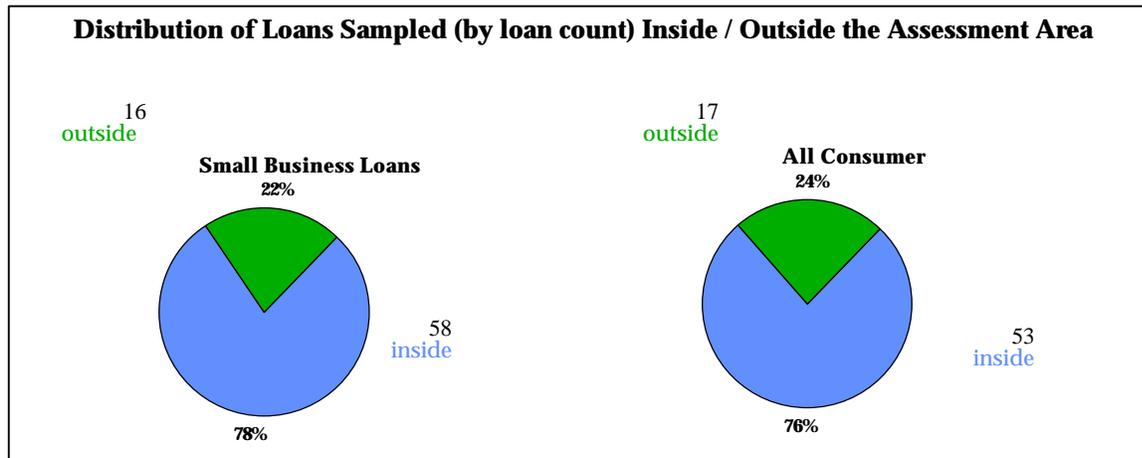
#### **LENDING IN ASSESSMENT AREA:**

The bank's responsiveness in lending to individuals and businesses within its two assessment areas meets the standards for a satisfactory performance. To determine the level of lending within the assessment areas, examiners reviewed 74 small business loans totaling \$11.3 million and 70 consumer loans totaling \$5.2 million that were extended since the previous examination. Examiners analyzed the geographic distribution of these loans to identify the percentage of loans extended inside and outside the two assessment areas.

Of the 74 small business loans, a majority, 58 (78%) was extended within the assessment areas, which represents an increase from 75% noted at the previous examination. In addition, 63% of the total small business dollars was extended within the assessment areas.

Of the 70 consumer installment loans, the bank extended 53 (76%) within the assessment areas, which represents 70% of the total consumer dollars. Overall, 111 (77%) of the 144 loans reviewed were extended within the bank's assessment areas.

The following chart shows the lending in and out of the assessment area:



### **LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:**

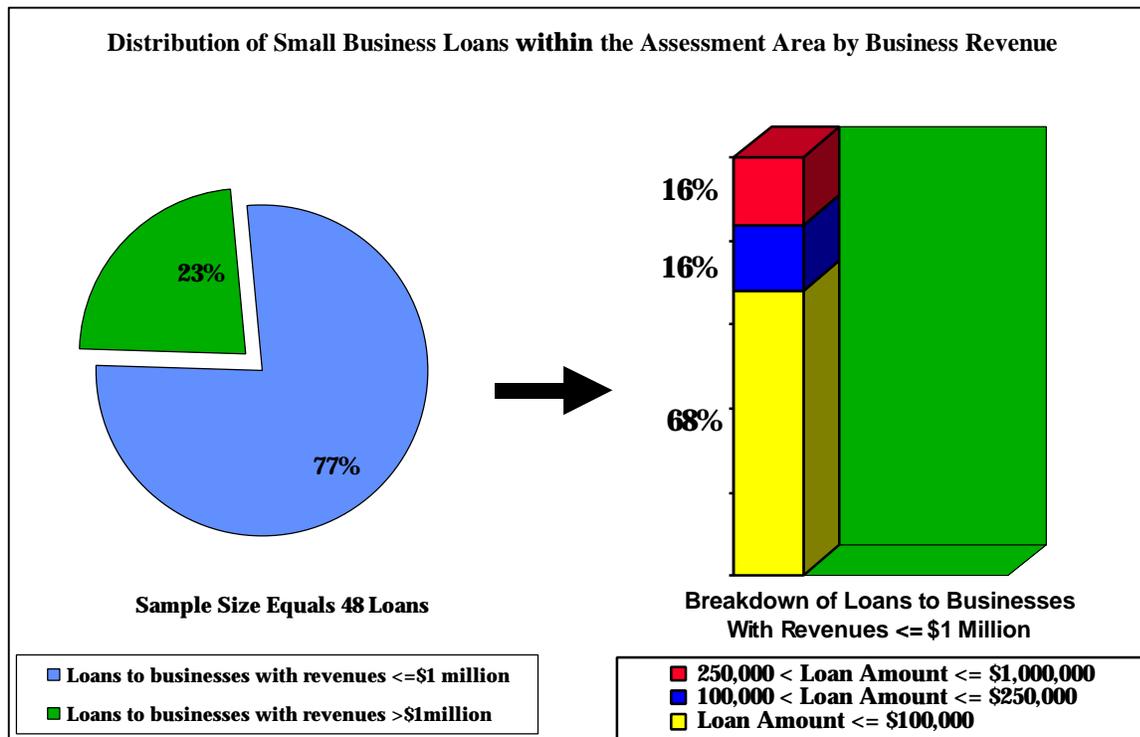
The bank meets standards for a satisfactory performance in this criterion. For the analysis, examiners reviewed a sample of small business loans extended within the assessment area to determine the bank's level of lending to small businesses. Additionally, examiners reviewed consumer installment loans extended within the assessment area to evaluate the level of lending to low-, moderate-, middle-, and upper-income borrowers.

#### Lending to Businesses of Different Sizes

Liberty Bank is meeting the credit needs of small businesses within its assessment areas. Of the 48 small business loans extended within the assessment areas where business revenue was collected, 37 (77%) were made to businesses with gross annual revenues less than \$1 million. By dollar volume, 82% was extended to businesses with gross annual revenues less than \$1 million. The small business loans were also made in relatively small dollar amounts. Of the 37 loans to small businesses, 25 (68%) had loan amounts at or below \$100,000.

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. Given the nature of the industries within the assessment area, bank management stated that this proxy does not accurately reflect the distribution of businesses by size based on revenue; however, examiners and bank management did not have a better source of information to use as a comparison tool. Employment statistics were not available for the San Lorenzo Valley. A community contact stated that almost all the businesses in the San Lorenzo Valley are small retail or tourist oriented owner-operated enterprises.

The following chart shows the distribution of small business loans within the assessment area business revenue:



In the San Mateo assessment area, the bank extended 28 loans to small businesses. Of the 28 loans, 17 (61%) had loan amounts at or below \$100,000. In the San Lorenzo Valley assessment area, the bank extended 9 loans to small businesses. Of the 9 loans, (89%) had loan amounts at or below \$100,000.

The bank’s record of lending to small businesses, combined with the percentage of those loans in amounts of \$100,000 or less, demonstrated that the bank is responsive to the credit needs of businesses of all sizes, including small businesses. The bank is also meeting the identified credit need of small dollar loans for business.

Lending To Borrowers of Different Incomes:

Fifty-three consumer loans were extended in the bank’s assessment areas. Of these, borrower income characteristics were available for forty-eight loans totaling approximately \$2.2 million. Examiners analyzed these loans by the borrowers’ income levels. For the analysis, the assessment area population was divided into four income groups: low-, moderate-, middle-, and upper-income based upon the income of the family relative to the median income of the Metropolitan Statistical Area (MSA). This population distribution is then compared to the bank’s distribution of consumer loans. Borrowers are classified low-, moderate-, middle-, or upper-income by comparing their income to the HUD-adjusted median family income. The San Mateo County Assessment area is located in the San Francisco MSA and had a 1997 HUD-

adjusted median family income of \$64,400. The Santa Cruz County assessment area is located the Santa Cruz-Watsonville MSA and had a 1997 HUD-adjusted median family income of \$55,200. The distribution of families and borrowers is shown below:

Distribution of Consumer Loans By Borrower Income Level San Mateo County Assessment Area					
Income Level	Number of Loans		Dollar Amount of Loans		Percent of Families San Mateo
Low	6	27%	\$ 95,000	7%	14.7%
Moderate	4	18%	\$ 120,650	9%	17.6%
Middle	3	14%	\$ 38,150	3%	25.2%
Upper	9	41%	\$ 1,158,000	82%	42.4%

Distribution of Consumer Loans By Borrower Income Level San Lorenzo Valley Assessment Area					
Borrower Income	Number of Loans		Dollar Amount of Loans		Percent of Families San Lorenzo Valley
Low	8	31%	\$ 53,035	6%	11.4%
Moderate	5	19%	\$ 53,552	6%	14.2%
Middle	4	15%	\$ 70,466	19%	22.2%
Upper	9	35%	\$602,200	68%	52.2%

Measured by the number of loans extended, the bank's overall record of lending to consumers of all income levels compared favorably to the percentage of low- and moderate-income families in the assessment areas. Since the prior examination, Liberty Bank has increased its lending to low- and moderate-income borrowers. The bank extended 14 loans to low-income borrowers, which represents an increase from its prior record of four loans; and extended 9 loans to moderate-income borrowers, an increase from 7 loans.

By dollar amount, the bank’s consumer loans are primarily extended to upper-income borrowers; however, management indicated that the consumer loans requested and extended are in very small dollar amounts which help explain the disproportionate percentages. Although only 12% of the loan dollars were extended to low- and moderate-income borrowers, low- and moderate-income borrowers received 50% of the total number of loans extended in the San Lorenzo Valley assessment area. The same trend applies in the San Mateo County assessment area.

Liberty Bank’s lending demonstrates a satisfactory responsiveness to small business owners and to borrowers of different income levels. The bank’s continued improvement in lending to small businesses and low- and moderate-income borrowers demonstrates its commitment to serving the credit needs of its community.

**GEOGRAPHIC DISTRIBUTION OF LOANS**

In the San Mateo County assessment area, the bank’s geographic distribution of loans was evaluated in a manner similar to the evaluation of its lending performance in providing credit to borrowers of different incomes and business of different revenues. Examiners reviewed the distribution of small business loans and consumer loans by comparing the number of low-, moderate-, middle-, and upper-income census tracts to the number of loans extended within each of those tracts. The San Lorenzo Valley assessment area was not evaluated since there are no low- or moderate-income census tracts within that community.

The San Mateo County assessment area is comprised of 111 census tracts. There are 14 (13%) moderate- and 54 (49%) middle-income tracts. The one low-income tract has zero population and contains the San Francisco International Airport; therefore, it was excluded from this analysis. Many of the 42 (38%) upper-income census tracts are located south of the main office, extending down the peninsula. The distribution of loans by income level of census tract is depicted in the following table.

Distribution of Loans by Income Level of Census Tracts					
Income Levels		Low	Moderate	Middle	Upper
Consumer Loans	#	0%	16%	52%	32%
	\$	0%	2%	64%	33%
Small Business Loans	#	0%	16%	70%	14%
	\$	0%	16%	64%	20%
Census Tracts		0%	13%	49%	38%

The distribution of both consumer and small business loans compares favorably to the distribution of census tracts within the assessment area. It also reflects an improvement in not only the distribution of loans throughout the assessment area, but an improved penetration into the moderate-income census tracts that are in close proximity to the main office. The bank

extended loans in four of fourteen moderate-income tracts at this examination as compared to only one of fourteen tracts at the previous examination.

The lower percentage of consumer loan dollars in moderate-income tracts is again due to the fact that many of these loans were to low- and moderate-income individuals and extended in lower dollar amounts. Although examiners did not have data on the location of small businesses throughout the assessment area, information received from outside contacts suggested that small businesses are distributed fairly evenly throughout the county. As such, the bank's loan distribution closely matches the census tract distribution.

Based upon the improvement noted above, and the fact that these lending trends compare favorably to the demographic characteristics of the assessment area, the bank's record of lending meets the standards for satisfactory performance.

#### **RESPONSE TO COMPLAINTS:**

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, the bank's performance in responding to complaints 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 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; therefore, it is not subject to the Home Mortgage Disclosure Act. While there were violations of the Equal Credit Opportunity Act, they were isolated in nature and did not have a discriminatory effect. Moreover, a review of the bank's loan and credit evaluation procedures indicated that no applicants are discouraged from requesting the types of credit offered by the bank. The bank has a secondary review process for declined loans to help ensure the equal treatment of all applicants. The policies, procedures and training programs developed by the bank adequately support non-discrimination in lending.