



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

May 07, 2012

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

First FS&LA of San Rafael  
Charter Number 706896

1030 Third Street at A Street  
San Rafael, CA 94901-3246

Office of the Comptroller of the Currency

One Front Street  
Suite 1000  
San Francisco, CA 94111

**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 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.

**INSTITUTION'S CRA RATING: This institution is rated Satisfactory**

This institution is rated “**SATISFACTORY.**”

First Federal Saving and Loan Association of San Rafael satisfactorily meets the credit needs of its assessment areas, including low-and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- The association’s loan-to-deposit ratio exceeds the standard for satisfactory performance.
- The association’s lending in its assessment areas meets the standard for satisfactory performance.
- The geographic distribution of the association’s loans meets the standards for satisfactory performance given its size, location, business strategy, and competition.

The distribution of the association’s loans to borrowers of differing income levels was not evaluated due to its focus on multifamily dwelling lending, for which borrower income is not reported.

There were no public complaints about the association’s CRA performance.

**SCOPE OF EXAMINATION**

We evaluated the association's performance based on loans originated from January 1, 2009, through December 31, 2011. We focused our evaluation on the association's primary product line, residential mortgage loans. To assess the association’s overall CRA performance, the association’s loans were analyzed to determine the level of lending within the association's combined assessment areas and to assess the reasonableness of the association’s lending to borrowers of differing income levels and within geographies of differing income levels. The association also voluntarily provided information about its community development activities.

**DESCRIPTION OF INSTITUTION**

First Federal Savings and Loan Association of San Rafael (First Federal or association) is a federally chartered mutual savings and loan association, headquartered in San Rafael, California. The Bank has been operating since 1963. First Federal maintains five branch offices, two (including the main branch) in Marin County, two in the City and County of San Francisco, and one in the City of Oakland in Alameda County.

As of December 31, 2011, First Federal had total assets of \$168.5 million with \$140.6 million in loans, which represents net loans to total assets of 83.4%. First Federal offers single-family (1-4 units), multifamily (5+ units), and commercial real estate mortgage loans. Unlike most savings associations, single-family mortgage

lending is not the dominant lending activity for the association. Instead, First Federal has a “niche” in multifamily residential lending. Between 2009 and 2011, multifamily residential mortgage lending represented 86.5% of the association’s residential mortgage lending and only four of the bank’s residential mortgage loans were secured by a single-family dwelling.

The association's last CRA examination was dated January 10, 2007, with a satisfactory rating. There are no legal or financial factors that impede the association's ability to help meet the credit needs of its community.

*Please refer to the association’s CRA public file for more information about the institution.*

## **DESCRIPTION OF ASSESSMENT AREA(S)**

An assessment area is a geographic area wherein CRA performance is measured. These geographies must include the institution’s branch offices and/or deposit-taking Automated Teller Machines (ATMs) and surrounding geographies in which the bank has originated or purchased a substantial portion of its loans. In addition, the assessment area boundaries must follow contiguous political subdivisions, such as counties, cities, or towns.

First Federal’s assessment area designation follows county and city boundaries. The assessment area meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. First Federal designated the counties of Marin and San Francisco and the cities of Oakland, Berkeley, Emeryville, and Piedmont in Alameda County as its assessment area. Based on social and economic integration as measured by commuting ties and other standards, such as population size, established by the Office of Management and Budget, First Federal has two assessment areas:

- San Francisco assessment area covering Marin County and San Francisco County
- Oakland assessment area covering the cities of Berkeley, Oakland, Emeryville, and Piedmont.

### San Francisco and Marin Counties Assessment Area

Marin and San Francisco Counties, along with San Mateo County make up the San Francisco-San Mateo-Redwood City Metropolitan Division (MD# 41884). The U.S Census Bureau estimated the 2010 population of this assessment area to be 1,057,644, an increase of 3.3% since the 2000 Census. Marin and San Francisco Counties combined, house 2.8% of the population of California.

The 2011 Housing and Urban Development (HUD) Updated Median Family Income for the San Francisco-San Mateo-Redwood City MD is \$101,600, an increase of 35.1% since the 2000 Census. According to the 2000 U.S. Census data, low- and moderate-

income census tracts represented 37.0% of all census tracts in Marin and San Francisco Counties combined; and 30.0% of all families live within low- or moderate-income census tracts. Economic conditions deteriorated during the review period. According to the Bureau of Labor Statistics (BLS), the average annual unemployment rate in both counties increased since 2007, with a spike in unemployment in 2009 and a further increase in 2010. Unemployment rates dropped slightly in 2011, in both counties. In San Francisco County, the average unemployment was 5.2% in 2008 and spiked to 8.9% in 2009. The average unemployment rate in San Francisco County for 2011, was 8.6%. In Marin County, the average unemployment was 4.7% in 2008, and spiked to 7.7% in 2009. The average unemployment rate in Marin County for 2011, was 7.4%.

The following table provides additional information about the demographics of First Federal’s San Francisco and Marin Counties assessment area.

Demographic Information for Full Scope Area: San Francisco-Marin Counties AA					
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #
Geographies (Census Tracts/BNAs)	227	11.45	25.55	35.68	27.31
Population by Geography	1,024,022	11.12	23.64	39.57	25.67
Owner-Occupied Housing by Geography	179,333	2.60	15.79	43.90	37.70
Business by Geography	152,534	19.16	20.03	29.54	31.27
Farms by Geography	1,418	9.31	13.47	42.74	34.49
Family Distribution by Income Level	208,515	24.97	17.92	18.50	38.61
Distribution of Low and Moderate Income Families throughout AA Geographies	89,432	17.99	28.21	38.82	14.99
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		75,188 101,600 9%	Median Housing Value Unemployment Rate (2000 US Census)		509,451 2.40%

Source: 2000 US Census and 2011 HUD updated MFI

The association faces strong competition from 54 financial institutions operating within San Francisco and Marin Counties. First Federal ranks 29th in deposit market share with a market share of 0.07%. The three largest banks hold a total of 80.76% of total deposit market share in this assessment area. The top three institutions are Bank of America, Wells Fargo Bank, and Citibank.

A recent community contact interview with a representative from a community development organization stated affordable housing for immigrants and services are much needed in Marin County.

Cities of Oakland, Berkeley, Emeryville, and Piedmont Assessment Area

The cities of Oakland, Berkeley, Emeryville, and Piedmont are located in Alameda County. Alameda County along, with Contra Costa County makes up the Oakland-Fremont-Hayward MD (MD #36084). Since First Federal operates only one branch in Alameda County, the association opted to include communities adjacent to its branch office in Oakland instead of the whole county. This delineation is acceptable given the bank’s single-branch, its lending focus, and the size of the county. The U.S Census Bureau estimated the 2010 population of Alameda County to be 1,510,271, an increase of 4.6% since the 2000 Census. Alameda County houses 4.1% of the population of California.

The 2011 HUD Updated Median Family Income for the Oakland-Fremont-Hayward MD is \$92,300, an increase of 35.0% since the 2000 Census. According to the 2000 U.S. Census data, low- and moderate-income census tracts represented 58.1% of all census tracts in the Cities of Oakland, Berkeley, Emeryville, and Piedmont, combined and 58.5% of all families live within low- or moderate-income census tracts. Economic conditions deteriorated during the review period. According to the BLS, the average annual unemployment rate has increased since 2007 with a spike in unemployment in 2009 and further increase in 2010. Unemployment rates dropped slightly in 2011. In Alameda County, the average unemployment was 6.2% in 2008, spiked to 10.5% in 2009, and further increased to 11.3% in 2010. The average unemployment rate in Alameda County for 2011 was 10.4%.

The following table provides additional information about the demographics of First Federal’s Oakland, Berkeley, Emeryville, and Piedmont assessment area.

Demographic Information for Limited Scope Area: Oakland-Berkeley-Emeryville-Piedmont AA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	148	28.38	29.73	21.62	19.59	0.68
Population by Geography	536,498	28.77	32.95	20.95	17.20	0.13
Owner-Occupied Housing by Geography	90,161	13.86	26.82	25.41	33.89	0.02
Business by Geography	59,271	30.07	25.36	23.28	20.82	0.46
Farms by Geography	576	22.74	26.74	26.22	24.31	0.00
Family Distribution by Income Level	114,949	35.23	18.11	16.90	29.76	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	61,314	39.31	38.59	15.79	6.31	0.00
Median Family Income HUD Adjusted Median Family Income for 2011 Households Below Poverty Level		68,346 92,300 16%	Median Housing Value Unemployment Rate (2000 US Census)	274,894 3.67%		

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2011 HUD updated MFI

The association faces strong competition from 46 financial institutions operating within Alameda County. First Federal ranks 39th in deposit market share with a market share of 0.08%. The four largest banks hold a total of 68.31% of total deposit market share in Alameda County. The top four institutions are Wells Fargo Bank, Bank of America, JPMorgan Chase, and Citibank.

*Please refer to the association’s CRA public file for more information about the assessment areas.*

## **DETERMINATION OF PRIMARY LOAN PRODUCTS**

Table 1 reflects the association’s loan portfolio by number and dollar volume.

Table 1

<b>First Federal Saving and Loan Association of San Rafael Loan Portfolio Composition As of 12/31/2011</b>		
<b>Loan Type</b>	<b>Dollar (000)*</b>	<b>Percentage</b>
<b>Business/Commercial Loans</b>	<b>22,337</b>	<b>15.9%</b>
<b>Residential Mortgage Loans:</b>	<b>118,266</b>	<b>84.1%</b>
Single Family (1-4 Units) Loans	13,408	9.5%
Multifamily (5+ units) Loans	104,858	74.6%
<b>Consumer Loans</b>	<b>0</b>	<b>0.0%</b>
<b>TOTAL</b>	<b>140,603</b>	<b>100.0%</b>

Source: Thrift Financial Report as of 12/31/11

\*Reflects total commitment amount.

Residential mortgage lending makes up the majority of the association’s lending activity. While the association also offers commercial real estate loans, this type of lending is not considered a primary loan product. Residential mortgage loans have a much longer term than commercial loans and the association does not sell its loans in the secondary market. As such, the association is at a competitive disadvantage compared to its larger, often much larger, multifamily lending competition in its markets. The association actively grants loans but volume has declined and current volume largely reflects refinances of existing loans.

We analyzed the association’s reportable residential mortgage loans for this performance evaluation. We analyzed loans originated between January 1, 2009 and December 31, 2011. We compared this lending to the 2000 U.S. Census demographic data and the 2010 HMDA aggregate, the most current peer data available.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The association’s loan-to-deposit (LTD) ratio is more than reasonable given the association’s size, financial condition, and credit needs in the assessment areas.

We analyzed the association’s quarterly LTD ratio from January 2007 through December 2011. During that period, the association’s LTD ratio ranged from a low of 105.6% to a high of 115.6%, with an average LTD ratio of 110.7% over the 20 quarters ended December 31, 2011. The association’s LTD ratio consistently exceeds the national peer group average (79.5% as of December 31, 2011). However, there are no true peer banks of similar structure and comparable asset size that operate in the same assessment area due to the association’s unique structure.

We compared the association with Circle Bank and Luther Burbank Savings, which have the same emphasis on multifamily residential mortgage loans and operate in the same assessment areas. Despite the differences in size and structure, we found that these three financial institutions have a similar high average LTD ratio over the review period.

We also noted that the association’s LTD ratio decreased from 113.4% to 110.7% since the last examination. The association’s LTD ratio continues to be stable but shows a slight decreasing trend as the association’s total loans continued to decrease at a slightly faster pace than deposits due to local competition and the historical low interest rates environment.

### Lending in Assessment Area

The association’s record of lending within its combined assessment areas meets the standard for satisfactory performance.

Table 2

First Federal Savings and Loan Association of San Rafael Combined Lending in its San Francisco and Oakland Assessment Areas									
Loan Type	Number of Loans				Dollars of Loans				
	Inside		Outside		Inside		Outside		
	#	%	#	%	\$	%	\$	%	
HMDA Loans	37	80.4%	9	19.6%	\$31,645	82.7%	\$6,630	17.3%	
<b>Totals</b>	<b>37</b>	<b>80.4%</b>	<b>9</b>	<b>19.6%</b>	<b>\$5,627,436</b>	<b>82.7%</b>	<b>\$6,630</b>	<b>17.3%</b>	

Source: HMDA-reportable loans originated between January 1, 2009 and December 31, 2011

A majority of the association's loans were originated within its defined assessment areas. The association originated 80.4% of the number and 82.7% of the dollar volume of loans within its defined assessment areas.

### **Lending to Borrowers of Different Incomes and to Businesses of Different Sizes**

The association is a niche multifamily lender. A substantial majority of its reportable residential mortgage loans were secured by multifamily (5 or more units) properties, for which borrower income is not reported. Between 2009 and 2011, multifamily residential mortgage lending represented 86.5% of the association's residential mortgage lending and only four of the association's residential mortgage loans were secured by a single-family dwelling. All of the single-family loans were granted to either a non-profit or a limited liability partnership. We did not analyze performance under this component.

### **Geographic Distribution of Loans**

The association's geographic distribution of loans meets the standard for satisfactory performance and reflects satisfactory dispersion throughout the AAs. We reviewed the pattern for geographic distribution of lending in low- and moderate-income census tracts within each assessment area. The Census demographics reflect where multifamily dwellings are located based on 2000 U.S. Census information. Tables 3 and 4 detail the association's multifamily lending activity within its assessment areas.

#### **San Francisco Assessment Area**

The association's lending within low- and moderate-income census tracts represented 10.4% of its multifamily lending. This lending is well below the percentage (50.2%) of multifamily properties located in low- or moderate-income census tracts. The association's lending results were also below the distributions of total area census tracts (37.1%) and below the 2010 HMDA aggregate's multifamily lending of 18.4% in low-income tracts and 29.7% in moderate-income tracts.

First Federal is a niche multifamily lender that competes with large and very large financial institutions for multifamily mortgage loans. We also reviewed the HMDA aggregate multifamily lending market share reports for 2010.

- In Marin County, there were ten lenders that accepted multifamily dwelling applications and only three of those lenders accepted such applications from low- or moderate-income areas. First Federal was one of those lenders. Only eight lenders originated multifamily loans in Marin County in 2010 and none of those loans were located in low- or moderate-income census tracts.
- In San Francisco County, there were 42 lenders that accepted multifamily dwelling applications and 33 of those lenders accepted such applications from low- or moderate-income areas. There were 37 lenders that originated multifamily loans in San Francisco County in 2010 and 30 of those lenders

originated multifamily loans located in low- or moderate-income census tracts. In 2010, First Federal accepted one multifamily loan application from a moderate-income area and granted that loan.

While the association's lending within low- and moderate-income census tracts in San Francisco and Marin Counties is extremely low compared to demographic data and HMDA peer data, the association is a small mutual thrift competing with large and very large lenders for a specific line of business. The association has had difficulty competing on pricing with its larger competitors and in addition, is competing against local area community development organizations for affordable housing projects. As evidenced in the market share data and further compounded by the level and nature of competition for multifamily dwelling loans, the opportunities to penetrate low- and moderate-income areas are limited for smaller competitors, like this association. Given the association's size, its market, its lending expertise and focus, and competition, the association's performance under this component in its San Francisco and Marin Counties assessment area is considered reasonable.

Table 3

<b>Geographic Distribution of HMDA Loans Loans Originated Between 2009 and 2011 San Francisco and Marin Counties Assessment Area</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	<b>% of AA Multifamil y Properties</b>	<b>% of Number of Loans</b>	<b>% of AA Multifamily Properties</b>	<b>% of Number of Loans</b>	<b>% of AA Multifamil y Properties</b>	<b>% of Number of Loans</b>	<b>% of AA Multifamil y Properties</b>	<b>% of Number of Loans</b>
<b>2009-2011 HMDA</b>	26.0	6.9	24.2	3.5	26.3	41.3	23.5	48.3

Demographic Data Source: <sup>1</sup> 2000 Census

Oakland Assessment Area

The association originated only three loans in its Oakland assessment area between 2009 and 2011. All three loans were granted within moderate-income census tracts. While this lending reflects positive penetration in its Oakland, Berkeley, Emeryville, and Piedmont assessment area, lending volume overall is too low to make statistically valid conclusions regarding performance in this assessment area.

Table 4

Geographic Distribution of HMDA Loans Loans Originated Between 2009 and 2011 Cities of Oakland, Berkeley, Emeryville, and Piedmont Assessment Area								
Census Tract Income Level	Low		Moderate		Middle		Upper	
	% of AA Multifamil y Properties	% of Number of Loans	% of AA Multifamily Properties	% of Number of Loans	% of AA Multifamil y Properties	% of Number of Loans	% of AA Multifamil y Properties	% of Number of Loans
2009-2011 HMDA	32.6	0.0	32.4	100.0	29.9	0.0	5.1	0.0

Demographic Data Source: <sup>1</sup> 2000 Census

**Responses to Complaints**

The association did not receive any complaints regarding its CRA performance during the review period.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the association’s compliance with fair lending laws is satisfactory.