

## **Public Disclosure**

May 3, 1999

### **Community Reinvestment Act Performance Evaluation**

**Hawaii National Bank  
Charter Number: 14911**

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Honolulu, Hawaii 96817**

**Office of the Comptroller of the Currency**

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**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.**

## Table of Contents

General Information	2
Definitions and Common Abbreviations	3-4
Community Reinvestment Act (CRA) Rating	5
Description of Hawaii National Bank (HNB)	6-7
Scope of Examination	8
Fair Lending Review	9
Conclusions with Respect to Performance Tests	10
Lending Test	10
Investment Test	20
Service Test	22
Appendix A: Market Profiles for Areas Receiving Full-Scope Reviews	26
Appendix B: Tables of Performance Data	32

## 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 of **Hawaii National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **May 3, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate** - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Block Numbering Area (BNA)** - Statistical subdivisions of counties in which census tracts have not been established. BNAs have been established by the United States Census Bureau in conjunction with state agencies.

**Census Tract (CT)** - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten year census and an average population of 4,000.

**Community Development (CD)** - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Full-Scope Review** - Performance under the Lending, Investment and Service Tests is analyzed considering fully understood performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

**Geography** - A census tract or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA)** - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, withdrawn).

**Home Mortgage Loans** - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwellings loans, loans for the purchase of manufactured homes and refinancing of home improvement and home purchase loans.

**Limited-Scope Review** - Performance under the Lending, Investment and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

**Low- Income** - Income levels that are less than 50% of the median family income.

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Middle-Income** - Income levels that are at least 80% and less than 120% of the MFI.

**Moderate-Income** - Income levels that are at least 50% and less than 80% of the MFI.

**Small Business Loans** - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

**Small Farm Loans** - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

**Tier 1 Capital** - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income** - Income levels that are 120% or more of the MFI.

### Overall CRA Rating

**Institution’s CRA Rating:** This institution is rated **Satisfactory**.

The following table shows the performance level of **Hawaii National Bank**, with respect to the lending, investment, and service tests.

Performance Levels	Hawaii National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory	X	X	X
Low Satisfactory			
Needs to improve			
Substantial noncompliance			

(\* ) Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

The major factors supporting the institution’s rating are:

- < The bank’s small business lending demonstrates good responsiveness to the needs of the low- and moderate-income population and geographies with 257 loans totaling \$19.8 million. Most of these loans are small loans to small businesses.
- < The bank has adequate distribution of home mortgage loans to geographies and borrowers of different income levels, considering that home lending is not HNB’s focus.
- < HNB’s dollar volume of investment and grant activity is good, as well as responsive to the community’s needs considering available resources and opportunities.
- < The bank demonstrated leadership as one of the organizers and investors in a \$10 million community development investment project.
- < HNB provides banking services which are readily accessible to all portions of the assessment area, including low- and moderate-income geographies and people.
- < HNB and its affiliates provide excellent and responsive community development services.

## **Description of Hawaii National Bank**

Hawaii National Bank (HNB) is a wholly owned subsidiary of Hawaii National Bancshares (HB). The bank opened in September 19, 1960, and is headquartered in downtown Honolulu, HI. The bank operates 14 branch offices on three islands. HNB offers a full range of products through its 11 full service branch offices located in the more populated areas of Honolulu and Kailua on the island of Oahu. The bank operates one full-service branch on the island of Hawaii located in the community of Hilo and two full-service branches on the island of Maui in the communities of Kahului and Kihei. As of December 31, 1998, HNB had total assets of \$311 million and equity capital of \$27 million. The bank has not engaged in any merger activity during the assessment period.

As of December 31, 1998, net loans represented 71% of total assets and HNB's loan-to-deposit ratio was 80%. HNB's loans totaled \$225 million, with \$82 million or 36% in commercial loans, residential mortgages of \$65 million or 29%, consumer loans represented \$45 million or 20%, \$31 million or 14% of the loan portfolio was in commercial real estate loans and other loans represented \$2M or 1% of total loans. The bank's lending volume in 1998 increased slightly from 1997 despite the still weak Hawaiian economy. The bank's overall earnings performance has been adversely impacted by Hawaii's prolonged economic slowdown. As a result, resources have been limited to support community-based development initiatives. Additionally, the state's poor economy presents a challenge for HNB to make quality loans.

The bank's primary focus is on small business customers and to a lesser extent to individuals for home loans and consumer credit within the bank's assessment area. Most of the bank's customers are small family enterprises and closely-held businesses. HNB is the second smallest commercial bank based and doing business in Hawaii. The bank has 1.8% of the state's FDIC insured deposits. The bank competes for business loans in the assessment area with six commercial banks headquartered in Hawaii, two of which are part of large multi-state commercial bank holding companies. The only bank similar to HNB in size and market focus is City Bank, with \$792 million total assets. The bank also competes with two large savings and loans. The total number of financial institutions reporting small business loans in the Honolulu MSA in 1997 was 47. Of these, 14 lenders made 10 or more small business loans during the year. Non MSA small business loan reporters for 1997 totaled 42, of which 10 commercial lenders made 10 or more small business loans. The top lenders include the commercial banks based in Hawaii, national credit card lenders, and commercial banks headquartered on the mainland.

The Hawaiian market for home and consumer loans is also very competitive. The HMDA aggregation tables show that there were 165 mortgage lenders active in the Honolulu MSA in 1997. Eighty-one of these lending entities made 10 or more loans during the year. The HMDA reporters include local banks, financial institutions from the mainland, numerous local credit unions, and non-bank lenders. In the Non MSA, 120 lenders reported HMDA data, of that number, 46 originated 10 or more loans during 1997.

HNB is affiliated through common ownership as defined in 12 U.S.C 371c with various business entities of the Luke family who own more than 85% of HB. These various business entities contributed service and investments for various community development projects. After a review of the assets and profitability of the Luke family's various enterprises, we conclude that these enterprises are not engaged in banking activities and the bank does not conduct banking activities through these affiliated entities. The contributions and investments made by the affiliated entities were considered in our assessment of the bank's performance under CRA.

HNB's CRA performance was evaluated at this examination using Large Retail Bank CRA procedures. The bank's CRA performance was rated Outstanding at the CRA examination in April 1997.

## **Scope of Evaluation**

### **Evaluation Period/Products Evaluated**

This Performance Evaluation is based on information on HNB's small business and residential mortgage loan originations from January 1, 1997, through December 31, 1998. The bank did not report any community development loans during the period under review. Unless otherwise stated, references to loans means exclusively these two types of loans and not any other HNB loan originations (e.g., consumer loans). Appendix A contains additional details on the scope of this Performance Evaluation. We also reviewed the bank's retail banking services and community development investments and services from March 31, 1997, through May 3, 1999.

### **Data Integrity**

We reviewed a sample of HMDA, small business, and small farm loans to determine the integrity of the data used in this analysis. We found the data to be substantially correct and sufficient to assess the bank's performance during this evaluation period. As a result of our review, we determined that HNB is reporting small business and HMDA loans in accordance with the reporting guidelines.

### **Selection of Areas for Full Scope Review**

We performed a full-scope review on HNB's two assessment areas: the Honolulu MSA 3320 and the Hawaii Non-MSA Assessment Area. Both areas contribute to the evaluation of HNB's overall performance in the State of Hawaii. However, more weight is given to the bank's performance in the Honolulu MSA.

### **Ratings**

HNB's overall performance rating is based primarily on its performance in the Honolulu MSA assessment area. This area accounts for 86% of the bank's lending activity by number of loans, 89% by dollar volume and has 91% of the bank's deposits, 79% of the bank's branches and 92% of their ATMs.

## Fair Lending Review

We also performed a fair lending examination of HNB, in conjunction with this CRA examination. We used the OCC's fair lending examination procedures and focused on a sample of applicants for home mortgage loans that were processed between January 1, 1998 and December 31, 1998. Our objective was to determine if HNB provided consistent treatment to these loan applicants without regard to race, color, religion, national origin, sex, marital status, age, receipt of public assistance income, or the applicant's exercise in good faith of any right under the Consumer Credit Protection Act. These factors (prohibited basis) form the basis for illegal discrimination.

Based on the findings of this review:

- < HNB satisfactorily complies with fair lending laws.
- < We found no evidence of disparate treatment applied on a prohibited basis; no violations of fair lending laws were cited.
- < HNB has a satisfactory process in place to ensure ongoing compliance with fair lending laws.

## Conclusions with Respect to Performance Tests

### LENDING TEST

The bank's performance under the lending test is rated High Satisfactory. Based on full-scope reviews, the HNB's performance in the Honolulu MSA is good, but adequate in the Hawaii Non-MSA Assessment Area. The bank's performance in the Honolulu MSA was given more weight as the HNB conducts most of its lending activities in this MSA.

- C HNB's small business lending demonstrates good responsiveness to the credit needs of the low- and moderate-income population and geographies with 257 loans totaling \$19.8 million. Most of these loans were small loans to small businesses.
- C The bank's distribution of loans to businesses of different sizes and borrowers of different income levels is good.
- C HNB originated 85% of its loans within the assessment areas.
- C According to the 1997 Aggregate Small Business Data, HNB originated a high volume of small loans to small businesses considering its size, competition, and the local economy.
- < HNB participated in loan programs designed to meet the needs for affordable housing for low- and moderate-income borrowers.

### Lending Activity

Refer to Table 1 in Appendix B for the facts and data used to evaluate HNB's lending activity.

HNB's lending reflects good responsiveness to credit needs in its assessment areas. HNB originated 897 loans totaling \$79.9 million within its assessment areas during the evaluation period. The majority of the loans originated (88% of the number and 73% of the dollars) to businesses with revenues less than \$1 million. HMDA loans originated during the same period accounted for 12% of the number and 27% of the dollars funded within the assessment areas. As a result, the small business loan analysis is given more weight in the assessment of the overall performance of the Lending Test. Farm lending is not discussed in the performance evaluation. HNB originated four farm loans during this review period. Overall, farm lending represents less than 1% of HNB's loan portfolio.

The 1997 Aggregate Small Business Data showed HNB with a 3.96% market share and a rank of sixth of the 62 lenders in the State that originated loans to businesses with revenues less than \$1 million. This market share is good considering the bank has 1.8% of total deposits within the State of Hawaii. HNB's only peer, City Bank was ranked fifth with a 4.04% market share of the State's total deposits.

According to the 1997 HMDA Aggregate Data, HNB ranked number 53, of the 203 lenders in the State that reported lending activity. The bank's peer was ranked 45 of the reporting lenders. The ranking is based on the number of loans made by the institution within an MSA or Non-MSA. HMDA lending is not a focus of the HNB.

### **Assessment Area Concentration**

HNB has a very high concentration of loan originations within its assessment area. The bank originated 85% of the number and 84% of the dollar amount of reportable loans during the evaluation period in its assessment areas. This loan volume includes small business loans at 72% of the dollar and 87% of the number, residential mortgage loans at 28% of the dollar and 13% of the number and small farm loans at less than 1% both by number and dollar of loans originated.

### **Lending Gaps**

This evaluation included an analysis of lending gaps in HNB's assessment areas. There were several geographies in both the Honolulu MSA and the Hawaii Non-MSA assessment areas where the bank originated very few or no loans. In the Honolulu MSA, an area comprising a number of LMI geographies appeared to be a gap in the bank's lending. However, further analysis determined there was no gap in the bank's lending. The apparent gap was comprised of several barriers to lending such as parks, schools, hotels, a recreational center and a golf course. This apparent gap did not reflect negatively on the bank's performance in the Honolulu MSA assessment area.

## **Distribution of Loans by Income Level of the Geography**

### **Small Business Loans**

Refer to Table 5 in Appendix B for the facts and data used to evaluate the geographic distribution of the bank's small business loan originations.

### **Honolulu MSA**

Small business loans originated in this assessment area comprise 88% of the total number and 67% of the total dollar volume. HNB is ranked number 5 in the Honolulu MSA for loans originated to businesses with revenues less than one million. In this assessment area, HNB's performance was slightly better than its peer, which is more than twice its size. HNB had 4.92% compared to peer's 4.87%. This performance is particularly good considering the challenges of a slow economy and the bank's low earnings within the last two years.

HNB's geographic distribution of small business loans among the geographies throughout the assessment area is very good. This analysis is based on loans to business with revenues less than \$1 million. To assess the bank's geographic distribution of loans, we calculated the number of bank loans in low, moderate, middle and upper income geographies as a percentage of all loans originated during this review period. We then compare this to the percentage of businesses located in the low, moderate, middle and upper-income geographies. This provides some indication of the available lending opportunities within HNB's assessment area. We also compared the bank's lending in those geographies to the percentage of loans made by other banks within HNB's assessment area. This comparison tells us how well the bank did compared to its peers. Additionally, we compared the bank's overall market share in a particular loan category to the bank's market share in each geographic income level. This is an indicator of the bank's commitment to lend in low- and moderate-income geographies. Loan distribution when compared to area demographics is also an indicator of how well the bank availed itself of the opportunities to make loans.

We will use the three indicators discussed above, the percentage of bank loans in a particular geography to demographics, and the percentage of bank loans in a particular geography to the bank's overall market share of loans throughout the performance evaluation to analyze the bank's distribution of loans throughout its assessment area and to borrowers of different incomes.

Distribution among the low-income geographies is consistent with the demographics of the area. HNB funded 4% of the number of its loans in low-income geographies compared to 4% of the number of the small businesses located within the same geographies. The bank's market share of 7% in the low-income geographies exceeds the bank's overall market share of 4%. This demonstrates the bank's commitment to lend in low-income geographies.

Within the moderate-income geographies, HNB's lending exceeded the area demographics. This indicates that HNB did a good job of availing itself of the opportunities to lend. The bank originated 32% of the number of loans compared to 24% of the number of businesses located within those same geographies. The bank's market share of 5% within the moderate-income geographies is slightly better than the bank's overall market share.

HNB's geographic distribution in the middle-income geographies was less than demographics. The bank funded 41% of the number of loans compared to 51% of the number of businesses located in those geographies. HNB's market share in those geographies at 4% was the same as the bank's overall market share.

Upper-income geographies received 21% of the loan originations, which exceeds the demographics. Small businesses account for 18% of the total number of businesses located in those geographies. HNB's market share in the middle-income geographies of 4% is the same as the bank's overall market share.

### **Non-MSA Assessment Area**

Within this assessment area, HNB originated 12% of the number and 7% of the dollars in small business loans. HNB is ranked number 8 in the Non MSA for loans originated to businesses with revenues of less than one million. Overall in this MSA, HNB's performance was below peer. HNB had 1.72% market share compared to peer's 2.12% market share.

HNB's geographic distribution of loans in this assessment area is adequate. This is understandable, as more than 50% of the retail businesses in the Hilo portion of the assessment area have gone out of business. The economy in the Maui portion of the assessment area is also challenged by the slow down of the tourist and related service industries.

There are no low-income geographies within this assessment area.

The distribution of small business loans within the moderate-income geographies is substantially less than area demographics. This is attributable to the continued downturn in the local economy. HNB originated 6% of its loans among the 30% of the small businesses located within these geographies. With the loss of the sugar cane and pineapple industries, most of the small businesses rely more on tourism and the related service industries. The tourist industry is heavily reliant on the Japanese trade, and was adversely impacted by the problems of the Asian economy. The market share of 1.13% within these geographies is less than the bank's overall market share, which is 1.72%. The lack of lending performance is attributable to the reduction of viable business entities.

The distribution among the middle- and upper-income geographies exceeded the demographics of the area. HNB originated 69% of its loans in the middle-income geographies with a reported 60% of the small businesses. In the upper-income geographies, 10% of the businesses are small

businesses and received 25% of the loans originated. The market share for both middle- and upper-income geographies at 1.54% is less than the bank's overall market share of 1.72%.

## **Home Mortgage Loans**

Refer to Tables 2, 3, and 4 in Appendix B for the facts and data used to evaluate the geographic distribution of the bank's home mortgage loan originations.

HNB's HMDA lending accounts for 13% of the number and 28% of dollar of the bank's total loan originations. For HNB, this type of lending is not a primary focus. Of the 131 loans originated, 81% or 106 of the numbers and \$21.4 million or 82% of the dollars were within the bank's assessment areas.

## **Honolulu MSA**

### **Home Purchase Loans**

The bank's geographic distribution of home purchase loans is adequate, however, the lending volume is not really meaningful for purposes of this evaluation. HNB originated 21 or 84% of the bank's 25 home purchase loans within this MSA. The bank's overall market rank is number 35 of the 165 reporting lenders.

The bank originated loans in geographies at all income levels. Although the number of loans originated is small, lending in all geographic income levels was consistent with the opportunities to lend. The bank's market share for lending in geographies at all income levels is less than 1%.

### **Home Improvement Loans**

Home improvement loans comprise 13% of the number and 1% of the dollar volume of home mortgage loans originated by HNB. The bank is the number 15 ranked lender in this MSA. Loan originations in the MSA totaled 17, which is 100% of the total loans originated by HNB.

Geographic distribution is adequate. The bank originated loans consistent with the area demographics at all income levels, except for the upper-income geographies, where the bank exceeded demographics. The bank's overall market share is less than 1%.

### **Refinance Loans**

HNB's lending in the MSA is adequate. Refinance loans originated within this MSA were 67% of the number and 16% of the dollar volume of total loans extended by HNB. The bank's lending is ranked 41 overall with a market share of less than 1%.

HNB's distribution of loans at all income levels was comparable to the area's demographics. The

bank originated loans consistent with the opportunities to lend and the bank's business focus. The market share for the various income levels of all geographies was less than 1%, and did not exceed overall market share.

### **Non-MSA Assessment Area**

#### Home Purchase Loans

The bank's lending in the Non MSA assessment area is adequate given the constraints that exist and the fact that this type of lending is not a focus of this bank. HNB's overall lending is ranked 44 of the reporting 120 lenders.

An analysis of the bank's lending in each particular income level of the geographies would not be meaningful. HNB originated four home purchase loans in this area during this review period.

#### Home Improvement Loans

The bank did not originate any loans in this category within the Non MSA assessment area.

#### Refinance Loans

Lending in the Non MSA is adequate. Home mortgage lending is not a focus of HNB. The bank is ranked 44 overall and has a market share of less than a percent.

There are no low-income geographies within the Non MSA assessment area. HNB did not fund any loans in the moderate-income geographies. This is attributable to the slow economy and unemployment in the area. Lending in the middle- and upper-income geographies kept pace with the opportunities to lend. Market share for all geographies was less than 1% and consistent with the bank's overall market share.

### **Distribution of Loans by Income Level of the Borrower**

#### **Small Business Loans**

Refer to Table 10 in Appendix B for the facts and data used to evaluate the borrower distribution of the bank's small business loan originations.

HNB's distribution of loans to businesses of different sizes reflects a good responsiveness to the credit needs of businesses throughout the assessment areas.

Most (88%) of the bank's small business loans were originated within the Honolulu MSA.

## **Honolulu MSA**

The bank's lending to businesses of different sizes is very good. Of the 628 loans with reported revenues, 335 loans or 53% were extended to businesses with revenues less than \$1 million. The percentage of the bank's loans originated to such businesses is lower than the percentage of businesses located within the assessment area. This is not a critical weakness, as many of these businesses are very small home businesses with 1 - 4 employees. As a result, these businesses tend to self-fund.

Aggregate Small Business Data for 1997 indicates that HNB out performed the aggregate market in originating loans to businesses with revenues less than \$1 million. The bank originated 53% of its loans to small businesses compared to aggregate market, which originated only 39% of its loans to small businesses. HNB did better lending to businesses with revenues less than \$1 million. This is evidenced by the bank's market share of 4.92% to businesses with revenues less than \$1 million compared to 4.17% market share for total businesses regardless of revenue size. HNB's market share was also slightly better than the peer bank. The bank originated 81% of its small business loans in amounts less than \$100 thousand. Heavy competition and the slow down in tourism has had an adverse effect on the bank's ability to make quality loans.

## **Non MSA**

HNB's lending to businesses of different sizes is very good. Of the loans with reported revenues, the bank originated 42% of its total loans to businesses with revenues of less than \$1 million. The percentage of the bank's loans originated to such businesses is lower than the percentage of businesses located within the bank's area. This is not a material fact, since in the Hilo portion of the bank's assessment area, 50% or more of the retail business space is vacant. One of the bank's major competitors closed a branch in the downtown area and donated the building to the local university. This area's economy was hit the hardest with the demise of the sugar cane and pineapple industries and the slow down in tourism. While business activity in Maui portion of the assessment area is better, competition for the available business is greater. This is further supported by the fact that in Maui, HNB has two branches compared to one branch in Hilo. However, the Hilo branch has significantly more of the deposit share in this assessment area.

Based on the 1997 Aggregate Small Business Bank Data, the bank's percentage of loans to small businesses is better than the aggregate market place. In this market place, the peer bank performed slightly better than HNB.

## **Home Mortgage Loans**

Refer to Tables 7, 8 and 9 in Appendix B for the facts and data used to evaluate the borrower distribution of the bank's home mortgage loan originations.

HNB's distribution of home purchase loans reflects reasonable distribution among borrowers of

different income levels throughout the assessment areas. HMDA lending is not a primary focus of HNB. The bank's performance in the Honolulu MSA was weighted more heavily in our overall analysis.

## **Honolulu MSA**

The bank is ranked as the number 35 lender of home purchase loans in the Honolulu MSA among the 165 reporting lenders. The bank's market share was less than 1%. However, this type of lending is not the business focus of this bank.

The bank's lending to low-income borrowers was good. HNB was the number 13 ranked lender of home purchase loans to low-income borrowers of the 35 lenders that reported lending activity to borrowers at this income level. Market share was less than 1%.

Lending to moderate-income borrowers was reasonable. HNB was the number 24 ranked lender of the 55 lenders that reported lending activity to borrowers at this income level. HNB shares this ranking with 17 other lenders. Market share is less than a percentage.

HNB's lending to middle-income borrowers was reasonable. The bank was ranked number 29 of the 65 lenders that reported lending activity to borrowers at this income level. Market is less than 1%.

The bank's lending to upper-income borrowers was reasonable. HNB was ranked number 26 of the 79 lenders that reported lending activity to borrowers in this income category. Market share is less than 1%.

## **Home Improvement Loans**

HNB is the number 15 ranked lender of home improvement loans. Considering that this type of lending is not the bank's focus, this performance is good. Market share is less than a percentage.

The bank did not fund any loans to low-income borrowers. This is not a significant concern. As stated earlier, this type of lending is not a business focus of this bank. Additionally, the cost of housing, construction and land use restrictions adversely impacts lending to low-income borrowers.

Lending to moderate-income borrowers was good. HNB was number 8 ranked of the 20 borrowers that reported lending activity to borrowers in this income category. The bank's market share at 2.78% exceeded the bank's overall market share of less than a percentage. HNB's lending also exceeded the opportunities to lend to borrowers at this income level.

Lending to the middle- and upper-income borrowers was reasonable. The bank was ranked

number 14 and 15 of the borrowers that reported lending activity to borrowers in these income levels. Market share for both income categories were less than 1%.

## **Refinance Loans**

The bank's lending to borrowers at all income levels is reasonable. The bank is ranked number 41 of all reporting lenders and has an overall market share of less than 1%. This type of lending was given less weight. This type of lending is primarily used to improve a borrower's cost of credit.

HNB's lending to low-income borrowers is reasonable. The bank is ranked number 18 as were 13 of the 50 lenders reporting activity to borrowers at this income level. HNB's market share to borrowers at this income level was less than 1%.

Lending to moderate-income borrowers is reasonable. HNB is ranked number 27 of the 69 lenders that reported lending to the borrowers in this income category. Lending is also consistent with the bank's opportunities to lend. Market share is less than 1%, which is the same for as the bank overall.

Lending to the middle- and upper-income borrowers is reasonable. The bank is ranked number 34 and 30 respectively. HNB's market share for both income categories was less than 1%.

## **Non-MSA Assessment Area**

The bank is the number 44 ranked lender of home purchase loans in the Non MSA among the 120 reporting lenders. The bank's market share was less than 1%.

The bank did not originate any loans to low-income borrowers.

Lending to moderate-income borrowers was reasonable. HNB was the number 33 ranked lender of the 33 lenders that reported lending activity to borrowers at this income level. Market share is less than a percentage.

HNB did not originate any loans to middle-income borrowers.

The bank's lending to upper-income borrowers is reasonable. HNB is ranked number 36 of the 58 lenders that reported lending activity to borrowers in this income category. Market share is less than 1%.

## **Home Improvement Loans**

HNB did not originate any home improvement loans.

### **Refinance Loans**

The bank's lending to borrowers is reasonable. The bank is ranked number 44 of all reporting lenders and the overall market share was less than 1%.

HNB's lending to low-income borrowers is reasonable. The bank was ranked number 25 of the 30 lenders reporting activity to borrowers at this income level. HNB's market share to borrowers at this income level was less than one percent.

The bank did not originate any loans to moderate-income borrowers is reasonable.

Lending to the middle- and upper-income borrowers was reasonable. The bank was ranked number 31 and 45 respectively. HNB's market share for both income categories was less than 1%.

### **The following affordable home loan programs benefited both assessment areas.**

**Hula Mae Program** - HNB funded \$805 thousand in affordable housing loans. These loans were originated through the Hula Mae mortgage program established by the State of Hawaii for the benefit of low- and moderate-income families. However, the income level established by the State exceeded the MFI and the bank elected not to report these loans as community development loans. The loans were included in the analysis for mortgage loans.

**Hawaii Community Reinvestment Corporation (HCRC)** - HNB participated in this mortgage loan pool. HCRC is a non profit organization comprised of federally insured depository institutions authorized to accept deposits in the State of Hawaii. HCRC fund loans designed to benefit low- and moderate-income borrowers. HNB participated in the origination of four such loans totaling \$64 thousand.

### **Community Development Lending Activity**

Refer to Table one in Appendix B for the facts and data used to evaluate the bank's level of community development lending.

The bank did not report any community development loans for this review period.

## **INVESTMENT TEST**

## Conclusions

HNB's performance under the Investment Test is rated High Satisfactory. Based on full-scope reviews, HNB's performance in the Honolulu MSA 3320 and the Hawaii Non-MSA Assessment Area is very good. The activities within the Honolulu MSA weigh more heavily than those in the Non MSA. HNB and its affiliates have greater presence and more resources in the MSA. For this portion of the bank's performance, activities conducted by HNB's affiliates were considered. In the two years under review, the level of HNB's earnings was negatively impacted by the State's poor economy. As a result, all investments were funded through HNB's affiliates. The bank's affiliates are not regulated financial institutions and have no requirements to report this information.

Refer to Table 12 in Appendix B for the facts and data used to evaluate HNB's level of qualified investments.

- C HNB has a very good level of qualified investments, considering there are no opportunities available within the bank's assessment areas.
- C The bank's responsiveness to credit and community economic development needs is good.
- < HNB demonstrated very good leadership in developing a complex investment opportunity benefiting the State of Hawaii, and particularly the low- and moderate-income individuals.

The bank exhibited a very good level of responsiveness to the needs of the low- and moderate-income population and geographies through community economic development investments and grants within its assessment areas. This test considers the number and amount of investments, the extent that the investments meet the credit and community development needs of the assessment area, and the complexity and innovation displayed in the investments. During the evaluation period, HNB made a total of \$119 thousand in qualified investments, which equaled less than 1% of Tier 1 Capital. There are no opportunities for investments, and the bank is not expected to have the capacity and other resources to develop its own. HNB does not have the resources to consistently develop its own investment products. However, there are some opportunities for donations and grants.

HNB's responsiveness to credit and community economic development needs is evidenced by the following examples of qualified investments broken down by MSA and Non-MSA. These examples also support the bank's use of leadership, and innovative and complex investments to support community development initiatives.

In the Honolulu MSA over the evaluation period, the bank made \$90 thousand of the investments which included grants and donations of \$15 thousand. HNB's investments are discussed below.

< HNB committed to invest \$500 thousand in HMS Hawaii Management Partners, which is a Small Business Investment Corporation (SBIC). To date, the bank funded \$100 thousand of the funds committed. The goal of the SBIC is the creation of permanent and better-paying jobs as well as to assist in the diversification of the State's employment base. Job creation will be accomplished through loans to small businesses with cash flow problems and the stimulation of start-up businesses. To create this investment the partners were required to raise \$10 million. This was an extremely complex deal and required a great deal of the organizers' time. HNB's President was one of the organizers of this project. The loss of the sugar cane and pineapple industries created a void, which is still open. Most of the displaced workers were low- and moderate-income and lacked transferrable skills for similar paying jobs. The slowdown of the tourist trade placed further burdens on the economy. The creation of the SBIC is extremely critical to the overall health of the State, but particularly to the low- and moderate-income individuals.

The \$100 thousand investment made to date was credited to both assessment areas, \$75 thousand to Honolulu MSA and \$25 thousand to the Non MSA. The larger dollar was credited to the MSA because it has the most population.

- < A \$1,500 contribution to Business Information and Counseling Center (BICC) to provide credit counseling education for small businesses. The education included basic accounting and recordkeeping, the development of business plans, and the preparation of loan requests.
- < A \$3,000 contribution to the Hawaii Community Loan Fund (HCLF) to assist in the provision of funds to sponsor cost-effective seminars and training for the financially disadvantaged individuals.
- < A \$3,395 contribution to Aloha United Way to assist financially disadvantaged individuals.
- < A \$1,000 contribution to the Institute for Human Services to provide meals, shelter, clothing and urgent health care.
- < A \$2,000 contribution to provide shelter for the aged and indigent.
- < A \$2,500 contribution to provide scholarships for the small business owners and those individuals seeking to start businesses.
- < \$1,000 to establish an Electronic Benefits Transfer system to provide individuals receiving public funds access to their benefits. The State of Hawaii discontinued the issuance of checks for this purpose.

In the Non-MSA assessment Area, the bank made \$25 thousand in qualified investments and \$4 thousand in grants and donations. These investments included:

- < A \$25,000 investment in the HMS Hawaii Management Partners for economic development in the State.
- < A \$2,000 contribution to Hawaii Community Loan Fund to assist in the provision of loans to sponsor cost-effective seminars and training for the financially disadvantaged individuals.
- < A \$1,000 contribution to Business Information and Counseling Center to provide credit counseling education for small businesses. The education included basic accounting and recordkeeping, the development of business plans and the preparation of loan requests.
- < A \$250 contribution to Big Island Sustainable Communities Association to assist small business entrepreneurs in economically distressed communities.
- < A \$500 maintenance fee for an Electronic Benefits Transfer system to provide individuals receiving public funds access to their benefits. The State of Hawaii discontinued the issuance of checks for this purpose.

### **SERVICE TEST**

The bank's performance under the Service Test is rated "High Satisfactory." Based on full-scope reviews, the bank's performance in both the Honolulu MSA and the Hawaii Non-Metropolitan Assessment Areas is very good.

- < HNB provides banking services which are accessible to all portions of the assessment areas, including low- and moderate-income geographies and people.
- C New branch openings increase the accessibility of the bank's delivery systems, particularly to low- and moderate-income individuals.
- C Bank services are tailored to the needs of the assessment areas, and do not vary in a way that would inconvenience portions of the assessment area, particularly low- and moderate-income individuals or geographies.
- C HNB takes a leadership role in providing community development services.

### **Retail Banking Services**

The bank's offices are accessible to the population within the assessment area. Of the 14 total branches located in HNB's assessment areas, 11 are in the Honolulu MSA and 3 are in the Non-MSA. Of the 11 branches in the Honolulu MSA, 18% are located in a low-income geographies, 18% are in moderate-income geographies, 55% is in middle-income geographies, and 6% are located in an

upper-income geography. The branch distribution compares favorably to the demographics of the Honolulu MSA, where the geographies are 4% low-income, 20% moderate-income, 29% middle-income, and 32% upper-income.

In the Non-MSA portion of the assessment area, 33% of the branches are in a moderate-income geographies and 67% are located in middle-income geographies. The distribution of branches compared to the demographics of the area is good. Of the total geographies, 0% is low-income, 14% is moderate-income, 48% is middle-income, and 29% is upper-income.

HNB also provides 12 automated teller machines (ATMs) throughout the assessment areas, all of which are deposit taking facilities. Eleven of the deposit taking ATMs are in the Honolulu MSA and reflect reasonable geographic distribution. The one ATM in the Non-MSA is located in a moderate-income geography. Refer to Table 13 in the appendix.

The bank's customers, as well as non-customers, can use the bank's ATMs free of charge. Also, HNB does not pass on the fees to its customers, which are imposed by other financial institutions when HNB's customers use their ATMs.

HNB provides alternative delivery systems such as toll-free Bank-by-Phone (account inquiries, transfers, and bill payment), Bank-by-Mail, and Electronic Benefits Transfer. Bilingual services are available through a network of employees throughout that bank that speak Chinese, Filipino, Korean, Spanish, Japanese, French, and Vietnamese.

During the evaluation period, HNB opened two branches, both are in the Honolulu MSA. One branch is located in a low-income geography and the other branch is in a middle-income geography. The bank did not close any branches.

The bank's business hours are reasonable and structured to accommodate customers' needs. HNB's only in-store branch, which is located in a low-income geography is open seven days a week and on holidays.

### **Community Development Services**

HNB provides a high level of community development services.

HNB offers a variety of services that are specific to a majority of people and organizations within the assessment area. They have focused their community development services on providing opportunities to support economic development, small business creation and continuing banking education throughout the assessment areas. The following are some of the services the bank provides:

## Honolulu MSA

- < **Year 2000 Problem Awareness for Small Businesses** - HNB was the lead sponsor for this one-day workshop designed to assist small business owners to prepare for the Year 2000. Attendees obtained practical solutions and each was provided with resource materials which included a diskette to test their computers. Twenty bank employees participated.
- < **Lokahi Pacific (LP)** - The focus of LP is to facilitate economic development through the creation of new businesses and the expansion of existing businesses. A bank officer chairs the Rural Development Loan Committee. The officer reviews loan requests and assists potential borrowers in the completion of loan applications.
- < **Office of Hawaiian Affairs Native Loan Fund** - Loans are made available to Hawaiians unable to obtain traditional financing to start new businesses or expand existing businesses. A bank officer serves as a member of the loan committee.
- < **Empowerment Zone Grant Council (EZGC)** - The EZGC is a community-based effort to revitalize and promote economic development of the LMI areas through the improvement of assisted housing stock. The bank's affiliate, KJL & Associates was instrumental in establishing the EZGC. Tenants of the assisted housing stock were provided with a variety of benefits such as job training, job search and interviewing techniques, health and parenting classes.
- < **Empowerment Zone Community Building Committee (EZCBC)** - The EZCBC's focus is downtown Honolulu. EZCBC developed opportunities to increase the number of small businesses. A basic, but critical part of this operation is the removal of hostile environment and the provision of a safe and healthy business area. The EZCBC's work included the promotion of safe havens for battered women and children.
- < **Electronic Benefits Transfer (EBT)** - HNB together with other local banks took a leadership role in the development of the EBT program. This program is responsive to the needs of the low-income community. Formerly unbanked individuals can now access their Public Assistance benefits through the ATMs. This program allows these individuals to withdraw funds as needed instead of carrying large amounts of cash. Access to HNB's ATMs is free of charge.

## Non MSA

< **Hawaii Island Business Education Partnership** - The primary focus is business education for students. The education is offered in conjunction with the business community and the Department of Labor, Workforce Development Division. Students receive real life skills and the business community benefits by having a well-trained labor force. A bank officer chairs this committee and makes decisions on budgets and grants.

A number of the activities discussed under the Honolulu MSA also benefits the Non MSA.

**Appendix A: Market Profiles for Full-Scope Areas**

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**Table of Contents**

**Market Profiles for Areas Receiving Full-Scope Reviews**

Honolulu MSA 3320 . . . . .	32
Hawaii Non-Metropolitan Assessment Area) . . . . .	33

**Description of Assessment Areas**

Hawaii National Bank serves three assessment areas covering the most populous areas of the islands of Oahu, Maui, and Hawaii. The bank’s assessment areas include the bank’s 14 branch locations and do not arbitrarily exclude any low- and moderate-income areas. The bank’s assessment areas are more fully described below:

Honolulu MSA Assessment Area

The Honolulu MSA includes the entire island of Oahu. The island of Oahu has about 70% of the state’s population and is the site of state government. This island also has the highest proportion of the state’s tourism industry and population.

HNB’s assessment includes a portion of the Honolulu MSA that includes most of Metropolitan of Honolulu. The assessment area includes the leeward side of the island of Oahu from Pearl City, to Makapuu point on the eastern end of the island. The assessment area extends north to include the communities of Kaneohe and Kailua on the windward side of the island. This portion of the Honolulu MSA includes most of the residential and business sections of Honolulu.

Demographic Information for Full-Scope Area: Honolulu MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	139	4	20	40	32	4
Population by Geography	519,530	2	21	43	33	1
Owner-Occupied Housing by Geography	90,216	0	8	43	49	0
Businesses by Geography	16,630*	4	24	50	18	
Farms by Geography	189	2	12	43	43	
Family Distribution by Income Level	126,527	18	18	22	42	
Distribution of Low- and Moderate-Income families throughout AA Geographies	45,937	4	36	44	16	
Median Family Income	= \$45,313	Median Housing Value				= \$295,151
HUD Adjusted Median Family Income for 1998	= \$59,600	Unemployment Rate ( 1998)				= 5.4%
Households Below the Poverty Level	= 7.32%					

Source: 1990 U.S. Census and 1998 HUD updated MFI.

\* Include 4% with no information

In reviewing the forgoing chart which consists largely 1990 census information, the reader should be aware that Hawaii was at its economic peak at the time of the 1990 census. Since 1990, the unemployment rate has increased and the median housing value has decreased.

Non MSA Assessment Area

HNB has selected two assessment areas located in the Non MSA portion of the State of Hawaii. One assessment area is on the Islands of Maui and one is on the island of Hawaii. These two assessment areas are combined for the purposes of this analysis since the two islands contain a smaller portion of the state’s population.

# HNB’s Maui assessment area includes the most populous areas of the island in the Kahului and Kihei corridor. The assessment area includes the island’s largest community. HNB acquired these two branches in 1996 from a failed bank. HNB has experienced slow loan and deposit growth in this market. Employment on this island is extremely reliant on tourism. The State of Hawaii attempted to establish a high technology industry in an effort to diversify the economy.

# HNB’s assessment area on the island of Hawaii (Big Island) includes the census tracts in and around the community of Hilo on the island’s northeast coast. The community of Hilo is the island’s largest unincorporated community and administrative center for the island of Hawaii. Hilo is severely economically depressed due to the loss of the sugar cane industry in the early 1990’s. As a part of the examination, we visited Hilo’s business district and estimated that about 50% or more of the retail space is vacant. There is very little tourism in Hilo, most of the tourists go to Kona area, on the island’s southwest coast. Hilo is less desirable as a tourist destination due to high number of rain days per year. State and county governments are the largest employers in the community.

Demographic Information for Full-Scope Area: Hawaii Non MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA % of #
Geographies (Census Tracts/BNAs)	21	0.0	14	48	29	9
Population by Geography	83,338	0.0	15	61	24	
Owner-Occupied Housing by Geography	16,634	0.0	18	61	21	
Businesses by Geography	3,837	0.0	30	60	10	
Farms by Geography	88	0.0	8	76	16	
Family Distribution by Income Level	20,582	18	16	23	43	
Distribution of Low- and Moderate-Income Families throughout AA Geographies	6,983	0	26	59	15	

Median Family Income	= \$37,990	Median Housing Value	= \$166,280
HUD Adjusted Median Family Income for 1998	= \$50,200	Unemployment Rate 1998	
Households Below the Poverty Level	= 10.04%	Maui	= 6.9%
		Hilo	= 9.7%

Source: 1990 U.S. Census and 1997 HUD updated MFI.

**General discussion of the State of Hawaii’s economic condition.**

Hawaii’s overall economic condition continues to be weak, as has been the case for the past eight consecutive years. Historically, the economy has been heavily dependent on tourism and related service industries. With the diminishment of the pineapple and sugar cane industries in the 1990’s, the state’s economy has become even less diversified and more dependent on tourism than in previous years. According to persons employed with a department of the State of Hawaii, in the two decades prior to the 1990’s, large investments and increasing tourism, primarily from Japan, fueled significant job growth, increasing real estate values, and real income growth. With the economic problems in Asia and Japan, the real investment and tourism spending has significantly declined creating the current slow growth economy. The Federal Home Loan Bank of Seattle news letter calls Hawaii’s business climate bleak, with entrepreneurial prospects stifled and lending risks increased by the state’s exceptionally high cost of doing business.

Bank of Hawaii’s 1998 Economic Report states that residential real estate is beginning to recover and prices are stabilizing. Hawaii’s real estate market is still weak. The average value of single family residences in 1998 was \$300,000 which is about 20% below the average price in 1991. For commercial properties, the price decline has been greater. Commercial properties are selling at a 30% to 60% discount of 1990 prices. Hawaii’s 1995 Consolidated Plan noted many government imposed barriers to the development of affordable housing. These barriers include: (1) The requirement that any project receiving tax benefits or other assistance must pay wages set by the State Labor Department, which can increase the cost of a housing project by 20%; (2) development standards and overlapping land-use and permit requirements add to development time and expense; (3) obsolete codes and regulations can add up to 20% to housing construction costs, and (4) lack of an adequate infrastructure to support development of vacant in-fill lots. An additional, barrier is the added cost of construction materials that must be imported from the mainland.

The Department of Business, Economic Development & Tourism (DBEDT) for the State of Hawaii publishes a Quarterly Statistic & Economic Report. DBEDT’s most recent report issued in March 1999, stated that here have been record numbers of business and personal bankruptcies in each of the last few years. According to DBEDT, there were 5,813 bankruptcy filings in Hawaii in 1998 compared to 1,587 in 1994. The report states that the overall economic picture for the State of Hawaii remains weak, but the rate of decline and net job losses in the state has slowed. The tourism industry continues to suffer from the Asian economic crisis. However, tourism from the mainland increased during 1998 making up for a portion of the tourism decline from Asia. This increase in mainland tourism benefited the islands of Hawaii, Maui and Kauai, which have direct flights from the US

Mainland. As of October 1998, the Bureau of Labor Statistics reported that Hawaii's unemployment rate was 5.8%.

### **Assessment Areas Needs**

As part of our examination, we contacted several local community development agencies and organizations to inquire about local community credit needs. We also reviewed reports of community contacts made by other regulatory agencies. Additionally, we reviewed the Consolidated Plans for the counties of Honolulu, Maui, and Hawaii. Generally, the needs suggested by these community contacts indicate that the needs are similar throughout the state. The exception to the similarity is that apart from the island of Oahu, the other islands need more aid in moving displaced sugar and pineapple workers into new occupations. The community groups and governmental agencies identified the following community needs:

### **Lending**

- # Small business loans including micro loans.
- # Loans for the development of affordable housing including multi-family rental units.
- # Infrastructure such as roads, bridges, sewers needed to support development of additional affordable housing, especially in Hawaii and Maui counties.
- # Agricultural loans to support diversification of agricultural on the island of Hawaii.
- # Participation in revolving loan fundings targeted at community redevelopment.
- # Participation in home purchase programs to assist low - and moderate-income home buyers.
- # Rehabilitation loans for low- and moderate-income rental properties.
- # Development of elderly housing units.
- # Business start-up capital.

### **Investments**

- # Cash contributions or grants to community development loan fund organizations for operating expenses.

### **Services**

- # Credit counseling and training among less financially sophisticated individuals.
- # Low cost deposit accounts for low income people.
- # Technical assistance in administering community loan fund, including accounting and lending expertise.

- # Mentoring for new small business owners.
- # Aid in developing training material and courses for small business borrowers.

## Appendix B: Standard Tables

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### Content of Standard Tables

The following is listing and brief description of each table included in the set of standard tables. Also include is any other information that may assist the examiner in interpreting the tables. In addition to the factors discussed under “General Information,” the following are applicable: market rank is based on the number of loans made by the bank as compared to all other lenders in the MSA/assessment area and market share is the number of loans originated and purchased by the bank as a percentage of the aggregate number of reportable loans originated and purchased by all lenders in the MSA/assessment area. High market rank is not an automatic indicator of strong (“outstanding”) performance. Market rank should be evaluated in the contextual sense. Refer to the Data Analysis Phase section for additional guidance. For non-HMDA reporting banks evaluated using the Large Bank CRA Procedures, market share information is not applicable.

**Table 1. - Lending Volume** - Presents the number and dollar amount of reportable loans originated and purchased by the bank over the evaluation period by MSA/assessment area.

**Table 2. - Geographic Distribution of Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies to the percentage distribution of owner-occupied housing units throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 3. - Geographic Distribution of Home Improvement Loan Originations** - See Table 2.

**Table 4. - Geographic Distribution of Home Mortgage Refinance Loan Originations** - See Table 2.

**Table 5. - Geographic Distribution of Small Business Loan Originations** - The percentage distribution of the number of small loans (<\$1 million) to businesses originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of businesses (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 6. - Geographic Distribution of Small Farm Loan Originations** - The percentage distribution of the number of small loans (<\$500,000) to farms originated and purchased by the bank in low-, moderate-, middle- and upper-income geographies compared to the percentage distribution of farms (regardless of revenue size) throughout those geographies. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 7. - Borrower Distribution of Home Purchase Loan Originations** - Compares the percentage distribution of the number of loans originated and purchased by the bank to low-, moderate-, middle- and upper-income borrowers to the percentage distribution of families by income level in each MSA/assessment area. The table also presents market rank and market share information based on the most recent aggregate market data available.

**Table 8. - Borrower Distribution of Home Improvement Loan Originations** - See Table 7.

**Table 9. - Borrower Distribution of Home Mortgage Refinance Loan Originations** - See Table 7.

**Table 10. - Borrower Distribution of Small Business Loan Originations** - Compares the percentage distribution of the number of small loans (<\$1 million) originated and purchased by the bank to businesses with revenues of \$1 million or less to the percentage distribution of businesses with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the business. Market share information is presented based on the most recent aggregate market data available.

**Table 11. - Borrower Distribution of Small Farm Loan Originations** - Compares the percentage distribution of the number of small loans (<\$500 thousand) originated and purchased by the bank to farms with revenues of \$1 million or less to the percentage distribution of farms with revenues of \$1 million or less. The table also presents the percentage distribution of the number of loans originated and purchased by the bank by loan size, regardless of the revenue size of the farm. Market share information is presented based on the most recent aggregate market data available.

**Table 12. - Qualified Investments** - Presents the number and dollar amount of qualified investments made by the bank in each MSA/assessment area. The table presents aggregate investment data, regardless as to if the investment was made during prior evaluation periods (and is still outstanding) or made during the current evaluation period. If the timing of the investments impacts the examiner's evaluation of the bank's performance under the test, such an issue should be addressed in the narrative.

**Table 13. - Distribution of Branch and ATM Delivery System** - Compares the percentage distribution of the number of the bank's retail branches and ATMs in low-, moderate-, middle- and upper-income geographies to the percentage of the population within each geography.



**Table 1. Lending Volume**

LENDING VOLUME													State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998	
MSA/Assessment Area:	% of Total Bank Deposits in Rated Area	Home Mortgage		Small Business		Small Farm		Community Development		Total Reported Loans		% of Total Reported Bank Loans in Rated Area				
		#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)	#	\$ (000's)					
Full-Scope:																
MSA Honolulu	91%	95	\$20,274	694	\$53,185	1	\$1	0	\$0	790	\$73,460	88%				
Non MSA	9%	11	\$1,196	96	\$5,274	0	\$0	0	\$0	107	\$6,470	12%				

**Table 2. Geographic Distribution of Home Purchase Loan Originations**

Geographic Distribution: HOME PURCHASE													State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Purchase Loans	
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Honolulu MSA	0%	0% <sup>1</sup>	8%	10%	43%	33%	49%	57%	41	.15%	.45%	.10%	.11%	.34%	21	84%
Non MSA	0%	0%	11%	33%	62%	0%	27%	67%	44	.08%	0%	.29%	0%	.13%	4	16%

(\*) Based on 1997 Aggregate HMDA Data only.

<sup>1</sup> Less than one percent.

**Table 3. Geographic Distribution of Home Improvement Loan Originations**

Geographic Distribution: HOME IMPROVEMENT																State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Improvement Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Honolulu MSA	0%	0%	8%	7%	43%	13%	49%	80%	15	.76%	0%	0%	.65%	1.03%	17	100%			
Non MSA	0%	0%	11%	0%	63%	0%	27%	0%	0	0%	0%	0%	0%	0%	0	0%			

(\*) Based on 1997 Aggregate HMDA Data only.

**Table 4. Geographic Distribution of Home Mortgage Refinance Loan Originations**

Geographic Distribution: HOME MORTGAGE REFINANCE																State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998	
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Home Mortgage Refinance Loans				
	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans	% Owner Occ Units	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total			
Full-Scope:																			
Honolulu MSA	0%	3%	8%	10%	43%	42%	49%	44%	41	.28%	17%	.22%	.19%	.35%	59	89%			
Non MSA	0%	0%	11%	0% <sup>2</sup>	63%	57%	27%	43%	44	.17%	0%	.58%	.04%	.53%	7	11%			

(\*) Based on 1997 Aggregate HMDA Data

<sup>2</sup> Less than one percent.

**Table 5. Geographic Distribution of Small Business Loan Originations**

Geographic Distribution: SMALL BUSINESS																	State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998				
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Business Loans								
	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans	% of Businesses	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total							
Full-Scope:																							
MSA Honolulu	4%	4%	24%	32%	51%	41%	18%	21%	5	4%	7%	5%	4%	4%	**694	88%							
Non MSA	0%	0%	30%	6%	60%	69%	10%	25%	8	1.72%	0%	1.13%	1.54%	1.54%	96	12%							

(\*) Based on 1997 Aggregate Small Business Data only.

(\*\*) 2% loans in NA tracts.

**Table 6. Geographic Distribution of Small Farm Loan Originations**

Geographic Distribution: SMALL FARM																	State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998				
MSA/Assessment Area:	Low-Income Geographies		Moderate-Income Geographies		Middle-Income Geographies		Upper-Income Geographies		Overall Market Rank*	Market Share by Geography*					Total Small Farm Loans								
	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans	% of Farms	% BANK Loans		Overall	Low	Mod	Mid	Upp	#	% of Total							
Full-Scope:																							
MSA Honolulu	2%	0%	12%	0%	43%	100%	43%	0%	0	0%	0%	0%	0%	0%	1	100%							
Non MSA	0%	0%	8%	0%	76%	0%	16%	0%	0	0%	0%	0%	0%	0%	0	0%							

(\*) Based on 1997 Aggregate Small Farm Data only.

**Table 7. Borrower Distribution of Home Purchase Loan Originations**

Borrower Distribution: HMDA HOME PURCHASE																	State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998				
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Purchase Loans								
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total							
Full-Scope:																							
Honolulu MSA	18%	5%	18%	10%	22%	19%	41%	67%	35	.15%	.45%	.10%	.11%	.34%	21	84%							
Non MSA	18%	0%	16%	25%	23%	0%	43%	75%	44	.08%	0%	.29%	0%	.13%	4	16%							

(\*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 8. Borrower Distribution of Home Improvement Loan Originations**

Borrower Distribution: HOME IMPROVEMENT																	State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998				
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Improvement Loans								
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total							
Full-Scope:																							
Honolulu MSA	18%	0%	18%	27%	22%	7%	41%	67%	15	.76%	.80%	2.78%	.50%	.78%	15	100%							
Non MSA	18%	0% <sup>3</sup>	16%	0%	23%	0%	43%	0%	0	0%	0%	0%	0%	0%	0	0%							

(\*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

<sup>3</sup> Less than one percent.

**Table 9. Borrower Distribution of Home Mortgage Refinance Loan Originations**

Borrower Distribution: HOME MORTGAGE REFINANCE				State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998										
MSA/Assessment Area:	Low-Income Borrowers		Moderate-Income Borrowers		Middle-Income Borrowers		Upper-Income Borrowers		Overall Market Rank*	Market Share by Borrower Income**					Total Home Mortgage Refinance Loans	
	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*	% of Families	% BANK Loans*		Overall	Low	Mod	Mid	Upp	#	% of Total
Full-Scope:																
Honolulu MSA	18%	5%	18%	15%	22%	20%	41%	59%	41	.28%	0%	.51%	.17%	.58%	59	89%
Non MSA	18%	0% <sup>4</sup>	16%	14%	23%	29%	43%	57%	44	.17%	.61%	0%	.42%	.15%	7	11%

(\*) As a percentage of loans with borrower income information available. No information was available for 0% of loans originated by BANK.

(\*\*) Based on 1997 Aggregate HMDA Data only.

**Table 10. Borrower Distribution of Small Business Loan Originations**

Borrower Distribution: SMALL BUSINESS			State: Hawaii		Evaluation Period: January 1, 1997 TO December 31, 1998						
MSA/Assessment Area:	Businesses with Revenues of \$1 million or less			Loans by Original Amount Regardless of Business Size			Market Share****		Total Small Business Loans		
	% of Businesses*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$1,000,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
MSA - Honolulu	84%	53%	39%	81%	13%	6%	4.17%	4.92%	693	88%	\$54
Non MSA	91%	50%	43%	88%	8%	4%	1.66%	1.72%	96	12%	\$35

(\*) As a percentage of businesses with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 9% of loans originated by BANK.

<sup>4</sup> Less than one percent.

(\*\*\*) The market consists of all other Small Business reporters in BANK's assessment area and is based on 1997 Aggregate Small Business Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Business Data only.

**Table 11. Borrower Distribution of Small Farm Loan Originations**

Borrower Distribution: SMALL FARM State: Hawaii Evaluation Period: January 1, 1997 TO December 31, 1998											
MSA/Assessment Area:	Farms with Revenues of \$1 million or less			Loans by Original Amount Regardless of Farm Size			Market Share****		Total Small Farm Loans		
	% of Farms*	% BANK Loans**	% Market Loans***	\$100,000 or Less	> \$100,000 to \$250,000	> \$250,000 to \$500,000	All	Rev \$1 million or less	#	% of Total	Avg Loan Size
Full-Scope:											
Honolulu MSA	88%	100%	0%	100%	0%	0%	0.00%	0.00%	1	100%	\$1
Non MSA	92%	0%	0%	0%	0%	0%	0.00%	0.00%	0	0%	\$0

(\*) As a percentage of farms with known revenues.

(\*\*) As a percentage of loans with revenue information available. No information was available for 0% of loans originated by BANK.

(\*\*\*) The market consists of all other Small Farm reporters in BANK's assessment area and is based on 1997 Aggregate Small Farm Data only.

(\*\*\*\*) Based on 1997 Aggregate Small Farm Data only.

**Table 12. Qualified Investments**

QUALIFIED INVESTMENTS State: Hawaii Evaluation Period: January 1, 1997 TO December 31, 1998									
MSA/Assessment Areas:	Prior Period Investments*			Current Period Investments			Total Investments		
	#	\$ (000's)	%**	#	\$ (000's)	%**	#	\$ (000's)	% of Total \$'s
Full-Scope:									
Honolulu MSA	0	\$0	0%	9	\$90	76%	9	\$90	76%
Non MSA	0	\$0	0%	5	\$29	24%	5	\$29	24%

(\*) "Prior Period Investments" means investments made in a previous evaluation period that remain outstanding.

(\*\*) Percentage of the dollars invested in that MSA/Assessment Area that are prior period investments or current period investments.

**Table 13. Distribution of Branch and ATM Delivery System**

DISTRIBUTION OF BRANCH AND ATM DELIVERY SYSTEM																State: Hawaii				Evaluation Period: January 1, 1997 TO December 31, 1998			
MSA/Assessment Area:	Deposits	Branches						ATMs						Population									
	% of Total BANK Deposits	# of BANK Branches	% of Total BANK Branches	Location of Branches by Income of Geographies				# of BANK ATMs	% of Total BANK ATMs	Location of ATMs by Income of Geographies				% of the Population within Each Geography									
				Low	Mod	Mid	Upp			Low	Mod	Mid	Upp	Low	Mod	Mid	Upp						
Full-Scope:																							
Honolulu MSA	91%	11	79%	2	2	6	1	11	92%	2	2	6	1	2%	21%	43%	34%						
Non MSA	9%	3	21%	0	1	2	0	1	8%	0	1	0	0	0%	15%	61%	24%						