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PUBLIC BANK EAST BAY (PROPOSED)

DRAFT BUSINESS PLAN

November 2024

DRAFT

Please note this remains an extremely fluid economy and regulatory space. The Viability Study from early 2022 was a starting point but the banking environment has changed radically from that time and the current models reflect those changes. In addition, this draft presumes capitalization contributions from four governmental entities, not all of which are likely to be initial owners; when the final capitalization plan is in place, this document will be modified accordingly.

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I. Executive Summary

The Cities of Oakland, Berkeley and Richmond ("the Municipalities" or the "Organizers") propose to establish the Public Bank East Bay ("Bank" or "PBEB") with a mission to ensure that public funds residing in the financial system are used to promote the public good, i.e. an economy that upholds equity, social justice, and ecological sustainability.[1] The following business plan has been prepared on behalf of the Municipalities by a number of local business leaders, many of whom are proposed herein as Bank Directors, and the Friends of the Public Bank East Bay, formerly Friends of the Public Bank of Oakland ("Friends"), a registered IRS 501(c)(3) corporation. The Plan details the proposed Bank's approach to creating an entity that successfully achieves this mission while upholding the values of the Municipalities and their diverse communities and performing according to the highest financial standards and requirements. The Bank will focus its initial lending activities on affordable housing development, affordable homeownership, local enterprises/small businesses—including workforce development and employee ownership initiatives, green investments, and environmental justice initiatives, working across all of these areas with the East Bay's many local financial institutions (LFIs).

The fundamental need for PBEB stems from the historic neglect of traditional financial institutions to equitably serve the public good, particularly the needs of low-income communities and communities of color. The PBEB will deliver financial services that are not extractive or damaging to the public good and will ameliorate the impact of past and on-going harms to marginalized communities. There are many faces to this issue. East Bay residents, businesses, and other stakeholders do not have access to the appropriate financial services and the financial instruments to better our communities. Additionally, mainstream banking's profit maximization, as opposed to community values driven, investment policies has caused worse economic, employment, health, and environmental outcomes that continue to this day.

This lack of orientation toward the public good by traditional financial institutions creates a large gap in the local banking market which the PBEB seeks to fill. This gap **amounts to billions of dollars a year and** is spread across the Bank's priority lending areas. The Municipalities project that affordable housing development will require more than $1.25 billion dollars a year through 2030[2]. Local enterprise lending for small businesses unsupported by traditional banks likely runs to several tens of millions of dollars annually. Lastly, green investments constitute a vast and urgent need for the East Bay to address the existential threat of environmental collapse.

Through extensive research and outreach to East Bay LFIs, businesses and nonprofits, and other government agencies and entities, the Organizers have identified a series of products and services that the PBEB can provide to fill the financial services gap. The Bank is designed to work in partnership with the Municipalities and many dedicated LFIs through participation lending and other collaborative approaches. Acknowledging these institutions' front-line role in serving local communities and these institutions' extensive community relationships and trust, the Bank will establish working relationships to provide capital to and through them, achieving broader impact than it could on its own. Together, the

[1] For technical reasons set forth in AB 857, the California Public Banking Act, the County of Alameda is not an initial applicant for the Bank charter. The County of Alameda [will execute] necessary financial commitment documents with the Bank's CEO and will join the Bank as a founding member shortly after the charter is approved.

[2] Community Housing Partnership

Bank and partner institutions will support affordable housing development and preservation; loans for first-time homebuyers; small business finance; revolving loan and bridge funds; and the construction of public and private clean-energy infrastructure such as solar-plus-storage and electrification systems at the neighborhood scale or for individual homes.

The Organizers seek to establish the Bank under the structure provided by California Assembly Bill No. 857 ("AB 857"), also known as the California Public Banking Act. The State of California passed, and In October 2019, Governor Gavin Newsom signed into law, AB 857 to provide a pathway for local government agencies to charter public banks.

The passage of AB 857 gave the Organizers the structure to address the impact of decades of profit maximization by traditional banks that has run counter to the public good and has often manifested as racial discrimination and unequal access to finance.

Since 2017, the Friends have been laying the groundwork for a regional public bank in Northern California's East Bay region. To that end, the Friends have secured support (and some financing) from the County of Alameda and the cities of Oakland, Berkeley, and Richmond.[3] In 2022, the Friends commissioned a viability study, as required by AB 857. The viability study was formally approved by the City Councils of Berkeley, Oakland, and Richmond in 2022, along with a commitment from each city for next steps in forming the Bank.

In addition, the Friends have recruited 10 community members and worked with local governments to identify 5 elected officials from the four jurisdictions as applicants for directors of the Bank, and have also raised the initial $1 million of the projected $2.4 million in start-up funds. With the help of Marcum, a nationally acclaimed advisory and recruiting firm, the Friends hired Scott M. Waite as the Bank's initial CEO in 2023.

The Organizers promote the use of public funds through a public bank to address three main areas where under investment and financing disparities are most pronounced: affordable housing, small businesses, and green investments, recognizing the need for public engagement in closing the gap in access to capital.

PBEB will comply with local, state, and federal laws and regulations; will collaborate with the California Department of Financial Protection and Innovation and the Federal Deposit Insurance Corporation as required; and will adopt sound management and financial practices to achieve its mission.

Why Is a Public Bank Needed? Municipalities' Challenges and Priorities for Public Banking Operations

To understand historical challenges and needs and offer context to the potential products or services that a publicly-owned bank can offer, it is important to examine the ways in which traditional banks have underserved multiple communities within the Municipalities, have not made investments guided by public priorities, and have used public funds for investments that run counter to the public good.

[3] The City of Richmond is in Contra Costa County; the other founding cities are in Alameda County.

Affordable Housing

There is a critical shortage of affordable housing in the East Bay. Speculative investment, treating housing as a for-profit commodity, the lack of effective rent-control or rental windfall profits tax, along with historic red-lining and ongoing structural discrimination have all contributed to this condition.

- Alameda County Housing Needs Assessment[4]
    - 50,842 low-income renter households in Alameda County do not have access to an affordable home.
    - 69% of extremely low income households are paying more than half their income on housing costs (severely cost burdened)
    - $8,567/Month is income needed to afford average asking rent - aka $49.42/hour, which is 3.1x minimum wage in Alameda County
    - 28% of very low income households are in overcrowded housing, while 23% of moderate income and 18% of above moderate income live in overcrowded housing.
    - For the county's 5th cycle regional housing needs allocation production goals, every jurisdiction ***has not met/is behind in its production goals*** for all income groups, except production for above moderate-income households in Oakland, Fremont, and Hayward.

- Contra Costa Housing Needs Assessment[5]
    - 34,065 low-income renter households in Contra Costa County do not have access to an affordable home.
    - 74% of extremely low income households are paying more than half their income on housing costs (severely cost burdened)
    - $7,400/Month is income needed to afford average asking rent - aka $42.69/hour, which is 2.6x minimum wage in city of Richmond
    - 21% of very low income households are in overcrowded housing, while 17% of moderate income and 12% of above moderate income live in overcrowded housing.
    - For the county's 5th cycle regional housing needs allocation production goals, every jurisdiction ***has not met/is behind in its production goals*** for all income groups, except production for above moderate-income households in Walnut Creek.

All these trends have been deeply entrenched by the historic bank practice of redlining, active discrimination against prospective homeowners and renters on the basis of race and income. This now-illegal practice involved denying loans or credit to certain neighborhoods based on the racial makeup of the area and has contributed to historical patterns of discrimination and limited the ability of communities of color to purchase homes. This has led to concentrated areas of poverty and overcrowding and perpetuated the gap in homeownership between Black and white populations, which remains at the same level it was in 1890.[6]

Even in the present day, the Greenlining Institute found that in the East Bay racial minorities, particularly Black and Hispanic communities, are disproportionately denied home purchase loans compared to their

[4] Community Housing Partnership
[5] Community Housing Partnership
[6] https://prospect.org/economy/how-to-start-closing-the-racial-wealth-gap/

population size. [7] Specifically, Black households, which make up 9% of the population, receive only 4% of home purchase loans, while Hispanic households, which make up 24% of the population, receive only 12% of such loans. These figures suggest that existing banks have been less likely to lend to borrowers in neighborhoods with large populations of people of color, which has had a detrimental effect on the ability of these communities to build wealth.

As the cost of homeownership continues to rise, with home prices reaching unprecedented levels and interest rates increasing, the rental market is becoming the primary option for many households across demographic groups. However, Black and Hispanic communities are disproportionately affected by high rental costs in proportion to their income. In Alameda County, in 2020, a significant proportion of these communities, 60% of Black and 51% of Hispanic households, qualified as "rent burdened," i.e. forced to allocate more than 30% of their income towards rent. For Contra Costa County, which contains the City of Richmond, those data are 67% of Black and 57% of Hispanic households.[8] Furthermore, these communities also face discrimination within the rental market through various mechanisms, even before they become cost burdened.

A report by Zillow found that prospective renters of color are faced with higher security deposit demands and have to submit more applications and pay higher fees than white renters. [9] In 2021, 61% of renters applied for two or more properties, an increase of 11 percentage points from 2019 and five points higher than in 2020. White or Asian American and Pacific Islander renters typically submit two applications, while Black or Hispanic renters typically submit three. More than a third of renters of color, 38% of Black and Hispanic renters, 33% of Asian American and Pacific Islander renters, and 21% of white renters had to submit five or more applications during their home search.

Small Businesses

Small businesses are a significant portion of the East Bay and American economy but finding appropriate and effective banking services is a challenge.

- Firms in the San Francisco-Oakland-Hayward Metropolitan Statistical Area (MSA) reported a higher usage of financial services provided by companies that are not banks at much higher rates than across the nation – 42% versus 24%, respectively. This illustrates a gap in financial services and provisions by banks in the area.
- Regional firms also reported applying for loans and lines of credit to online lenders and CDFIs at higher rates, furthermore illustrating a gap between available credit products offered by banks in the area and the needs of local small businesses.
- Non-standard business structures such as worker cooperatives or employee-owned businesses often cannot find financing from traditional banks, at all. Even more egregious is the uneven representation of Black and Hispanic-owned small businesses in the region which highlights a lack of equal economic opportunities and social mobility in the Municipalities.
- In 2020 – In the San Francisco-Oakland-Hayward Metropolitan Statistical Area, Black-owned businesses made up only 0.16% of employer firms[10], despite making up approximately 7% of the population 18 years or older.[11]

[7] https://greenlining.org/wp-content/uploads/2022/02/Greenlining-Home_Lending_to_Communities_of_Color_in_CA_2020-02.pdf
[8] https://nationalequityatlas.org/indicators/Housing_burden?geo=04000000000006001
[9] https://zillow.mediaroom.com/2022-04-06-Renters-of-color-pay-higher-security-deposits,-more-application-fees
[10] 2021 Annual Business Survey, Statistics for Employer Firms.
[11] 2020 American Community Survey, 5 year estimates; Table DP05 and B01001B.

- Similarly, Hispanic-owned employer firms only comprise approximately 3.2% of all employer firms[12] despite being 19.5%[13] of the population 18 years or older.

Low access to financial services significantly contributes to this ownership disparity, mainly due to limited access to banking services in many neighborhoods and discriminatory underwriting criteria. In terms of the former, a report by the National Community Reinvestment Coalition found that in the Oakland MSA 14% of total bank branches closed in the period between 2008 and 2016, mainly affecting Black and Hispanic residents. These communities are disproportionately likely to have limited access to traditional banking services, with many living in "banking deserts."[14]

Biases in loan underwriting criteria also play a significant role in the financing gap faced by minority-owned small businesses in the Municipalities and across the country. Even after controlling for credit score and income, these businesses often face more stringent procedures and suboptimal terms and interest rates, indicating the continuation of racial bias. Furthermore, financial institutions may also prefer businesses with a more established track record, leaving newer and smaller businesses in need of capital to scale up their operations at a disadvantage.

According to a study conducted by the Federal Reserve, only 25% of Hispanic-owned firms with low credit risk received all the non-emergency financing they sought, compared to 48% of white-owned firms with the same low credit risk. The same study also showed that only 35% of Black-owned small businesses received all requested funding, compared to 60% for their white-owned counterparts. [15] If evaluated by ethnicity, 60% of non-Hispanic-owned firms received all funds requested, while only 45% of Hispanic-owned businesses received requested funding.

The need for the PBEB is represented by the fact that even a publicly funded initiative like the Paycheck Protection Program (PPP), created to provide financial assistance to small businesses to help them keep their employees on payroll during the COVID-19 pandemic failed at improving this financing disparity. In contrast, the state of North Dakota, which operates the only large public bank in the United States, stood out as a successful distributor.[16] The loans to small businesses amounted to approximately $5,000 per private-sector worker.

Elsewhere in the U.S., businesses located in areas with high median household incomes ($150,000 or more) were more likely to receive PPP loans, with around half receiving the loan. Conversely, only about a quarter of businesses located in areas with lower median household incomes (under $75,000) received the loan. Furthermore, the data shows that business owners in predominantly Hispanic areas had the lowest rate of PPP loan receipts, with only 22% receiving the loan. Businesses in primarily Black neighborhoods had a similarly low rate of loan receipt at 23%, while businesses in predominantly Asian and white areas fared better, with 34% and 41% receiving PPP loans, respectively.[17] This lack of focus on minority-owned businesses' has significantly impacted their ability to grow, thrive, and sustain economic

[12] 2020 Annual Business Survey, Statistics for Employer Firms.
[13] 2020 American Community Survey, 5 year estimates; Table DP05 and B01001I.
[14] Bank Branch Closures from 2008-2016: Unequal Impact in America's Heartland
[15] U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.
[16] North Dakota businesses dominated the PPP. Their secret weapon? A century-old bank founded by radical progressives.
[17] Oh, Soo et al. (2021). *Geocoded loan data from the Paycheck Protection Program 2020 (PPP)*. Reveal from the Center for Investigative Reporting.

shocks, hindering their ability to create jobs and stimulate economic growth in their communities in an enduring and sustainable way.

Green Investments

We are facing the devastating consequences of climate change in the here and now. Yet over the past 7 years – since the Paris Agreement – the world's biggest 60 banks have poured over $5.5 trillion into the fossil fuel industry. In 2022 alone, they provided $669 billion. The biggest banks, JP Morgan Chase, Citi, Wells Fargo, and Bank of America are the respective top 4 financers of fossil fuels since the Paris Agreement.[18]

- Despite 49 of the top 60 banks having long-term net zero plans, these 49 banks financed $122 billion to companies expanding fossil fuel operations in 2022. [19]
- In a report by Rise Economy examining PPP loans to fossil fuel companies, financial institutions made thousands of loans to fossil fuel companies, totaling nearly $6 billion in funding, and collecting more than $178 million in fees paid out by the Small Business Administration.[20]
- The top 25 lenders alone provided nearly $2 billion in financing to fossil fuel operations via PPP lending across the nation, and due to the SBA fee structure, received an estimated $59.15 million in revenue paid out by the SBA.[21]
- Companies based in California received 580 PPP loans, totaling over $160 million in dollar amount and garnering over $4.5 million in revenue for banks' perpetuation of climate chaos in California.[22]
- Furthermore, combining data from the Private Equity Stakeholder Project and the PPP dataset, Rise found that 29 banks originated over $114.8 million in PPP funds to 50 oil and gas companies that were private equity backed. These were companies that had ample access to private equity capital, and should not have been able to take advantage of limited funds in the PPP intended for struggling mom-and-pop businesses.[23]

The Municipalities must take immediate action to deal with the community impacts of the extreme weather we are already experiencing. There are infrastructure investments that are needed to mitigate the fires, smoke, heat, cold, wind, flooding, sea-level rising that are our new reality. This crisis is exacerbated for residents of low-income and minority communities in the Municipalities that suffer from environmental inequality as they face limited access to safe housing options in areas with lower ecological hazards.

Neighborhoods with a history of industrial and polluting activities, such as Point Richmond, West and East Oakland have higher rates of chronic conditions that put pressure on public health and the labor market. This is reflected in data from the California Environmental Protection Agency's CalEnviroScreen

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[18] Rainforest Action Network (2023). *Banking on Climate Chaos: Fossil Fuel Finance Report 2023,* p. 4. [Banking on Climate Chaos: Fossil Fuel Finance Report 2023]
[19] Ibid., p. 27
[20] Rise Economy (2023). *Whose Paycheck are we Protecting? The Role Banks Played in Funding Climate Change Through the Paycheck Protection Program,* p.1.
https://rise-economy.org/research_crc/whose-paycheck-are-we-protecting/
[21] Ibid., p. 5.
[22] Additional PPP data analysis provided by Rise Economy.
[23] Ibid., p. 3.

tool[24], which shows that census tracts with the highest Pollution Burden scores in the Municipalities also tend to have a higher proportion of Hispanic and African American residents.

The transition to a sustainable energy future is crucial for addressing the pressing environmental challenges facing our world today. However, it is essential that this transition is not only environmentally sustainable, but also socially just. This means that investments in electric appliances, solar power, energy storage, and other green technologies must address the environmental injustices faced by communities of color across the Municipalities. Unfortunately, and judging from the past, existing financial institutions, such as private banks, that continue to fund fossil fuel projects and have a history of neglecting investment in minority communities, will not address this need effectively. Therefore, new and innovative models of financing and investment must be developed that prioritize the needs of historically marginalized communities. These include community-based and socially responsible public-owned options that ensure that the transition to sustainable energy is inclusive and equitable.

II. Description of Business

Business and Market Niche

Overview of Lending Areas

The establishment of the Bank will create a "fiscally safe and sound institution" in which to invest the Municipalities funds in ways that advance the Municipalities' values and interests.[25] In particular, PBEB will provide loans and other financial products that promote desired outcomes in the following three lending areas:

- **Affordable Housing Development and Affordable Homeownership**, to address the East Bay's worsening affordability crisis and racial inequity in homeownership. PBEB will support the production and preservation of affordable rental units and lower financial barriers that lower-income households and households of color face in accessing homeownership.
- **Local Enterprises**, to address disparities in accessing commercial capital and build community wealth through small businesses, nonprofits, and cooperatives. PBEB will strengthen the viability of local small businesses and nurture entrepreneurship, including underserved businesses owned by women and people of color. These investments would include initiatives to promote worker skill development, workplace democracy, and employee ownership.
- **Green Investments and Environmental Justice**, to mitigate the impacts of climate change and environmental racism. PBEB will support initiatives that reduce greenhouse gases—such as building electrification, renewable energy production, transit expansion, and vehicle electrification—and reduce pollution burdens in disadvantaged communities.

In the future, PBEB may consider entering other markets, such as those of public lands, sustainable food systems, foreclosure prevention and homeowner assistance, and student loans. PBEB will be prohibited

[24] CalEnviroScreen https://oehha.ca.gov/media/downloads/calenviroscreen/report/calenviroscreen40reportf2021.pdf
[25] https://sfgov.legistar.com/View.ashx?M=F&ID=9596572&GUID=E3366761-048C-40AD-AF3D-FC352B6A33D7

from lending for and participating in other activities that conflict with the Municipalities' values, including (but not limited to) predatory lending, fossil fuels, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations or that otherwise undermine the public good. PBEB does not consider any of its proposed product offerings to be non-traditional commercial banking activities.

This section details local lending needs in these areas and outlines the specific financial services that the Bank proposes to provide.

Methodology

The Organizers conducted extensive research, analysis, and outreach to answer three primary questions surrounding the priority lending areas and define the market niche for the Bank:

- What are the unmet financing needs and barriers to access for disadvantaged populations?
- What are the unmet financing needs of the Municipalities' public good priorities?
- What services, products, or terms are required to meet those needs?

This process entailed a three-pronged approach, including qualitative and quantitative methods, to validate the need for the Bank and inform its product offerings. These steps are displayed in the Figure below and described in greater detail on the subsequent pages.

Figure 1. Methodology to Define Market Niche

Landscape Scan

The first task was to establish a sound understanding of the local lending landscape. To quantify the supply of local financial products, the Organizers investigated the services provided by large regional and national banks, regional LFIs and departments within the Municipalities with whom they frequently partner. For each, the Organizers documented core product offerings, rough order-of-magnitude financing availability (total and per applicant), loan terms, and impact metrics, including the extremely valuable and highly detailed U.S. government Climate and Economic Justice Screening Tool[26]. Where possible, the Organizers also identified points of contact at each organization or department to engage via interview or focus group (described more in the following section).

To better understand the scale of demand for these services, the Organizers also analyzed national studies from the Federal Reserve Bank for local enterprise, Municipalities reports for affordable housing, and a strategy report from the University of California, Berkeley's Center for Law, Energy, and the Environment (CLEE) for green investments and environmental justice.

Stakeholder Engagement

The outreach phase focused on engaging potential clients and partners of the Bank, such as LFIs, local organizations and businesses, and City or County departments. The efforts focused on reaching those that are most likely to benefit from the creation of the Bank and who are currently negatively impacted by lack of access to financial services. The aim was to identify unmet needs and inform the Banks' niche.

The engagement process included both focus group discussions and one-on-one interviews. These were structured to have representation from various government districts, particularly those with concentrated low-income and racially diverse populations, the Municipalities' residents and business owners with different socioeconomic backgrounds, and individuals who have had experience interacting with existing financial institutions.

Based on these criteria, and in the process of creating the viability study which was the precursor to this Plan, the Friends met in 2022 with the following organizational experts:

- José Quinonez, CEO, Mission Asset Fund (small business lending)
- Sara Razavi, CEO, Working Solutions (small business lending)
- Scott Lewis, CFO, Main Street Launch (small business lending)
- Tom Duryea , CEO, Summit Bank (small business lending)
- Shanna McClearn, Director, Sales & Partnerships, Accion Opportunity Fund (small business lending)
- David Green, CEO, 1st NorCal Credit Union (small business lending)
- YaVette Holts, CEO, Bay Area Organization of Black Owned Businesses (BAOBOB) (small business lending)
- Dan Leibsohn, CEO, Community Development Finance (consumer and small business lending)
- Sally Smith, Community Development Underwriter, LISC Bay Area (affordable housing lending)
- Aubra Levine, Director of Real Estate Development, Unity Council (affordable housing lending)
- Eve Stewart, Director of Real Estate Development, Satellite Affordable Housing Associates (SAHA) (affordable housing lending)
- Louis Chicoine, CEO, Abode Services (affordable housing lending)
- Jim Lutz, local green energy consultant (electrification)
- Michael Theroux, California environmental project consultant (green project opportunities)
- Renee Roy Elias, recently at Center for Community Innovation (UC Berkeley) (small business landscape)

Most of these experts have not been interviewed again for this document and the information they provided for the viability study may be out of date.

[26] https://screeningtool.geoplatform.gov/en/downloads

Gap and Needs Analysis

As a final step, the Organizers synthesized findings from the above research to define overall market gaps: markets, products, and services for which demand outweighs supply. Specific types of gaps identified include product types (e.g., credit enhancements, guarantees, etc.), loan repayment terms (i.e., duration and interest rate), and estimated shortfall of capital. These findings are described below and they inform the Bank's proposed market niche and activities.

Lending Needs & Proposed Services

Affordable Housing Development and Homeownership

Lending Needs

Alameda County's worsening housing affordability crisis has become untenable. The cost of living in Alameda County is the second-highest in the nation, with a median rent of $2570 in 2023[27] and average home price approaching $1.4 million[28]. Zillow gives an average Richmond rent of $2400.[29] Nearly 74% of renter households earning less than $75,000 annually are cost-burdened (meaning that they spend more than one third of their income on housing)[30] while evictions have escalated since the conclusion of California's eviction moratorium in October 2021.[31] The racial gap in homeownership has also continued to widen; between 2000 and 2019, the Black and Latinx homeownership rates in Alameda County dropped by 7 percentage points each and in Contra Costa County by 8 and 7 percentage points, respectively.[32] Contra Costa County's numbers are comparable to Alameda County's.

Underpinning this crisis is a lack of supply. In recent decades, the East Bay has not built sufficient housing to keep pace with a growing population. In the fifth Housing Element cycle (2015-2022), no jurisdiction in Alameda County has met/is on target in its production goals for any income groups, except production for above moderate-income households in Oakland, Fremont, and Hayward. For Contra Costa County's 5th cycle regional housing needs allocation production goals, Richmond has not met/is behind in its production goals for all income groups.[33]

Robust funding and financing mechanisms are needed as demand continues to grow. Although significant public resources have been committed to new affordable housing in recent years, available funding is expected to decline in 2023 as current bond financing and federal transfers are fully allocated. As a result, the East Bay faces a funding gap of $1.25 billion annually through at least 2030[34].

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[27] https://www.zumper.com/blog/rental-price-data/

[28] California Housing Partnership

[29] https://www.zillow.com/rental-manager/market-trends/richmond-ca/

[30] American Community Survey, 2020; Cost burden is defined as spending at least 30% of household income on housing costs

[31] https://www.sfchronicle.com/realestate/article/eviction-notices-san-francisco-17553841.php

[32] https://bayareaequityatlas.org/node/65531

[33] See CHP Housing Needs Dashboard --> Production and preservation --> PROGRESS TOWARDS RHNA (5TH CYCLE) For specific unit counts (Alameda County data link)

[34] It was estimated in 2019 that the average per-unit cost of construction for below market rate housing in Alameda County was $725,469. According to the TCAC data for 2021 4% LIHTC projects, an average of 21% of total development cost is covered by private mortgage financing, leaving the average cost for below market rate housing in Alameda County to be $573,120. Considering the City of Oakland and Unincorporated Alameda County's 6th

Our analysis revealed financing challenges and gaps for both affordable housing development and homeownership opportunities. These include, but are not limited to, the following:

- A strong dependence on expensive commercial loans to fund pre-development activities.
- A strong dependence on expensive commercial loans to fund construction activities, and project delays threaten the viability of each project.
- A challenge to smaller organizations in meeting guarantees.
- A combination of grants and loans needed to make small site programs possible.
- Highly competitive financing from Municipalities' bond issuances, making this funding less reliable for developers..
- Lack of long-term financing.
- The challenge of meeting loan loss reserves.
- Difficulty in focusing on protecting existing housing and preventing displacement.
- The prohibitive cost of financing software needed to provide small businesses with credit lines.
- Outdated underwriting rules that do not reflect changes to how people earn their income (e.g., gig economy).
- Some banks do not want to be located or operate in areas where the cost of living negatively impacts lending and home ownership. The cost of CRA compliance to operate in such areas does not make economic sense for some banks.

Proposed Products and Services

In light of these gaps, the Bank proposes to provide the following products and services to meet market demand and encourage additional borrowing:

cycle housing element production goals for LMI residents (17,453 total units) by 2031, the county would need an estimated $10 billion by 2031 or $1.25 billion annually over the next 8 years.

Table 1. Affordable Housing and Homeownership Products and Services

Product	Solution
Patient and equity-like capital	Provide longer-term (10+ years) and low-interest loans—potentially structured as equity equivalent products—to LFIs to finance long-term affordable housing projects including, but not limited to, preservation and building and land acquisition. Patient capital can provide LFIs greater long-term certainty in funding availability that enables them to support larger projects over more time with greater flexibility.
Short-term financing	Provide pre-development loans to pay for a wide variety of expenses such as quick financing for property acquisition, and architectural and engineering fees, among others.[35]
Gap financing and refinancing	Help developers address mismatches between costs and revenue and to cover unexpected increases in labor and material costs through gap financing. With projects financed through Low Income Housing Tax Credit program, nonprofits may want to refinance at the end of the 15-year tax credit period to remove the corporate investor and pay off permanent loan in advance of completing rehab and fully refinancing.
Lines of credit	Offer flexible lines of credit to aid in efficiency and flexibility. Credit limits and repayment schedules for each drawdown would be based on a 3-5-year amortization of the balance. With ready access to a bank facility to offer line of credit financing through partner financial institutions, agencies should be able to find greater efficiencies in the permitting process.
Credit enhancement to serve more customers	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators.
Preservation of Naturally Occurring Affordable Housing ("NOAH")	Supporting nonprofits to purchase market-rate properties where many of the tenants are low income paying rent that is more or less affordable but not regulated, and stabilize the property for a few years before rehab/refinance with regulated rents.
Guarantees	Help facilitate guarantees—construction loan guarantees, completion guarantees, operating deficit, and tax credit—for affordable housing developers.
Alternative products	Support the creation of alternative products and markets for less-common structures like land banks, community land trusts, and tenancy-in-common. As a member of Federal Home Loan Bank, we will have access to Affordable Housing Program. Member banks receive allocations and often run out, so the Bank's participation can be valuable.

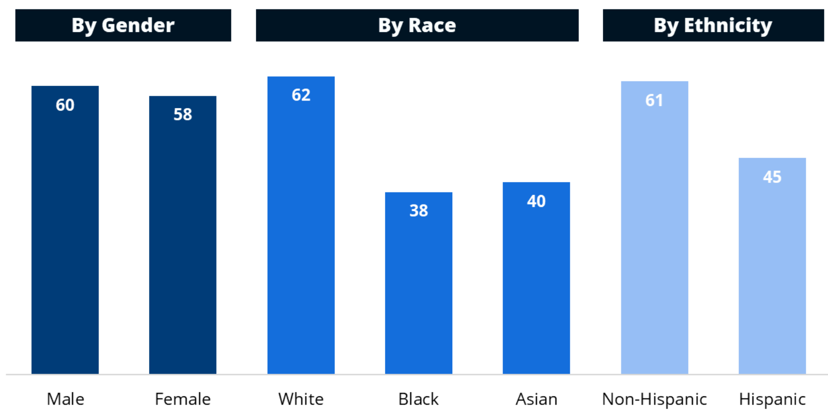
[35] FILL IN

Local Enterprises

Lending Needs

Nationally, the commercial lending landscape is plagued by racial and gender-based inequities. As of 2022, only 38% of Black and 40% of Asian small business owners received all funding they requested, compared to 62% of white applicants; similarly, the share of male applicants receiving all funding requested was two percentage points higher than that of female applicants (see Figure 3). As a result, the unmet credit needs among entrepreneurs of color is estimated to be 15-25% higher than those of white entrepreneurs.[36] The racial disparity in small business lending persisted during the pandemic: only 37% of small, Black-owned businesses (i.e., with $250,000 or less in 2020 revenue) received loans through the Paycheck Protection program (PPP), compared to 52% of small, white-owned businesses.[37]

Figure 3. Share of Small Businesses Receiving All Requested Funding by Gender, Race, and Ethnicity



***Source**: U.S. Federal Reserve, Availability of Credit to Small Businesses, 2022.*

These inequities have, in turn, caused disenfranchisement among prospective borrowers. Many business owners report a lack of trust in banking and government institutions, including fear of being rejected and reluctance to carry debt in general. These concerns often keep business owners from applying for the credit they need to grow, perpetuating a dynamic of inequality that entrenches racial wealth disparities.
Though CDFIs play an important role in filling these gaps, their capacity to grow is constrained. Most CDFIs finance their operations through a combination of grants, donations, and commercial bank loans; however, the financial resources at their disposal are insufficient to meet market demand.

Additionally, existing providers have gaps in various products and services, particularly in growth capital, lines of credit, and credit enhancements for LFIs that serve small businesses. These include, but are not limited to, the following:

- Banks generally do not offer loans and revolving credit products at or below $150,000, especially for sole proprietors and very small businesses.
- Few financial institutions work with or know how to serve worker cooperatives or employee-owned firms.

[36] Joint Committee on Financial Services Testimony of Massachusetts Public Banking in support of S.665/H.1223 An Act to Establish a Massachusetts Public Bank

[37] Reimagine Main Street, Back to Business: Are Small Businesses Rebounding from COVID-19?

- Small businesses need bridge loans to cover the period between contract award and first payment received.
- More flexible underwriting rules are needed that recognize that different businesses' potential ability to repay is not tied to financial history, current assets, or other factors that have historically been used by the financial industry and that have correlated with reduced access for people of color.

Proposed Products and Services

In light of these gaps, PBEB proposes to provide the following products and services to meet market demand:

Table 2. Local Enterprise Products and Services

Need	Solution
Growth capital between CDFI or credit union cap and commercial bank minimum	Provide sufficient capital to enable LFIs to issue loans between $350,000 and $1 million, which can support businesses that are growing but still too small to receive adequate support from traditional banks.
Startup capital	Provide smaller-sized loans between $50,000 and $100,000 for entrepreneurs and business owners in early stages. Loans can be used for startup purposes, supplies and inventory, lease improvements, vehicles, and working capital, among other purposes.
Lines of credit	Provide line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.
Employee ownership transition loans	Provide affordable capital to loan funds that specialize in employee ownership transitions
Credit enhancement to serve more customers	Establish a loan loss reserve fund for LFIs to extend more loans to nontraditional borrowers who may lack standard credit indicators.
Community Land Trust support	Offer permanent financing (of at least 10 years, fixed rate) for smaller buildings (under 25 units) that can be subordinated to public subsidies through community land trusts (CLTs).[38] Land trust support may also include financing available for multifamily homeownership in housing cooperatives, shared equity condominiums and resale restricted tenancy in common (TIC) projects.[39]
Marketing funds	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners.

Green Investments and Environmental Justice

Lending Needs

Apart from the Municipalities' interest in having their public funds protected from investing in the fossil fuel or other polluting industries, the Municipalities are also striving to reduce their climate impact. Some progress has already been made. In 2017, the city of Oakland's total GHG emissions was 24% lower than the city's 2005 baseline[40], while the city of Berkeley has reduced overall GHG emissions by 31% since 2000[41]. Despite these advances, more work is needed. As of 2017, Oakland alone still emitted

[38] CLTs develop and steward permanently affordable housing for low- to moderate-income households. Many CLTs focus on acquiring and preserving existing housing to prevent the displacement of low-income and BIPOC residents.
[39] Needs in this area include building-wide mortgages for housing cooperatives as well as "share loans" that are essentially mortgages for individual cooperative homeowners. CLTs also need condominium and TIC mortgages that are compatible with CLT ground leases.
[40] https://www.oaklandca.gov/projects/2030ecap
[41]https://berkeleyca.gov/sites/default/files/documents/2023%20Climate%20Action%20Plan%20and%20Resilience%20Staff%20Update%20to%20Council_2023-06-20.pdf

nearly 2,643,884 million metric tons of carbon dioxide (MMT CO^2e) in local emissions, of which 32% were from transportation-related activities and 20% were from building operations.[42] Both Alameda County[43] and Contra Costa County[44] have set a goal to achieve net carbon neutrality in government services and operations by 2045. The Municipalities seek to achieve this goal through policy-setting, specifically highlighting action areas such as: built environment, community resilience, clean transportation, sustainable materials management and waste reduction, and climate leadership and governance.[45]

The Municipalities' Climate Action Plans need updates but still advance several strategies in support of ambitious goals; however, implementation will require significant funds. Estimates from across the region give a glimpse of the size of the need for financing electrification loans.

In a recent report, the City of Berkeley estimated the average cost of transitioning a residential building to be $30,000, with an estimated 32,500 existing residential buildings. The 2020 census for Alameda County counted approximately 625,000 residential housing units (not buildings) which would put the cost of electrification somewhere over $10 billion, with an additional amount to be added for the City of Richmond.

According to the consulting firm Wood Mackenzie, a national goal of 50% renewable energy will require more than a trillion dollars in finance capital.[46] California represents 6-7% of the national electricity market,[47] and the state's own goal is even more aggressive, seeking to achieve 60% renewables by 2030 and 100% by 2045.[48] The state's financing needs are thus in the several tens of billions for the next decade, and the East Bay's share of that is in the range of $3-7 billion. Obviously not all of that financing falls within the PBEB service area or initial target projects, but any appreciable fraction represents several hundred million in demand for financing, providing a substantial opportunity for the low-cost capital the PBEB can provide.

Although several East Bay programs exist, individual loan amounts and annual volumes are low in the context of a growing appetite for implementing green solutions for businesses, building- and homeowners, and individuals. Challenges related to green financing include, but are not limited to, the following:

- Climate change solutions require long-term financing; many public infrastructure projects are operating "hand-to-mouth" and receiving one-year grants or receiving funding from the Municipalities' annual budget, but most desired solutions and change would require long-term financing.

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[42]https://www.oaklandca.gov/projects/2030ecap
[43] https://www.acgov.org/sustain/documents/AlamedaCountyClimateActionPlanExecutiveSummary.pdf
[44] https://envisioncontracosta2040.org/wp-content/uploads/2022/04/Attachment-2.-Greenhouse-Gas-Forecast-Existing-Reductions-and-Target-Setting.pdf
[45] See Alameda County Climate Action Plan and Contra Costa Climate Action Plan for specific action areas.
[46] Presentation to the American Clean Power Association, December 2020.
https://cleanpower.org/wp-content/uploads/2021/02/american-clean-power-renewable-energy-and-infrastucture-policy-analysis.pdf
[47] https://www.eia.gov/state/seds/data.php?incfile=/state/seds/sep_fuel/html/fuel_use_es.html&sid=US
[48] https://www.ncsl.org/research/energy/renewable-portfolio-standards.aspx

- Zero-emission appliances rules and even larger de-carbonization efforts focused on green energy generation will require large financial investments.
- Short-term loans, smaller loans and credit lines are needed to help finance initial project costs.
- While the structure of federally funded green finance in the Municipalities has yet to be defined, there will likely be a need for co-financing for programs supported by the federal Greenhouse Gas Reduction Fund program created by the Inflation Reduction Act.

Proposed Products and Services

In light of these gaps, the Bank proposes to provide the following products and services to promote climate action initiatives:

Table 3. Green Investments and Environmental Justice Products and Services

Need	Solution
Short-term debt for building electrification and energy efficiency upgrades	Provide affordable, short-term financing for building-owners, homeowners, and renters to fill unmet needs in building electrification and other energy efficiency upgrades. This could include financing for electrification work, e.g. water heaters, furnaces, stoves, industrial refrigerators; promoting energy efficiency e.g. weatherization; updating electrical systems e.g., electrical wiring and panelboard upgrades and insulation; installing distributed photovoltaic, electric vehicle ("EV") charging, and xeriscaping specifically in support of lower-income communities. The Bank would explore products that are compatible with available local, state, and federal grants and rebates and provide that information to partners.
Public funding and patient capital for infrastructure projects	Provide longer-term (3-10 years) and low-interest loans to finance long-term infrastructure projects that reduce climate impact and for environmental remediation.
Subsidy and finance for energy efficient transportation	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure and other green transportation options.
Leverage tax credits for alternative green energy	Leverage federal tax credits to support solar and energy storage particularly in low-income communities. Support usage of alternative energy sources.

Organizational Structure

PBEB will be a nonprofit corporation as permitted under California law. The Bank will not have a holding company structure.

Affiliate Transactions

There are no affiliate companies of the Bank and no affiliate transactions are contemplated at this time. PBEB does not anticipate making any Regulation O loans or extensions of credit.

Legal Form

The Bank will be a nonprofit public benefit corporation organized under California law. Upon receipt of the approval to organize from the California Department of Financial Protection and Innovation ("DFPI") and the Federal Deposit Insurance Corporation ("FDIC"), and upon the issuance of the requisite permit by the DFPI, the Bank will be capitalized by the cities of Oakland, Berkeley and Richmond and the County of Alameda (the "Municipalities").

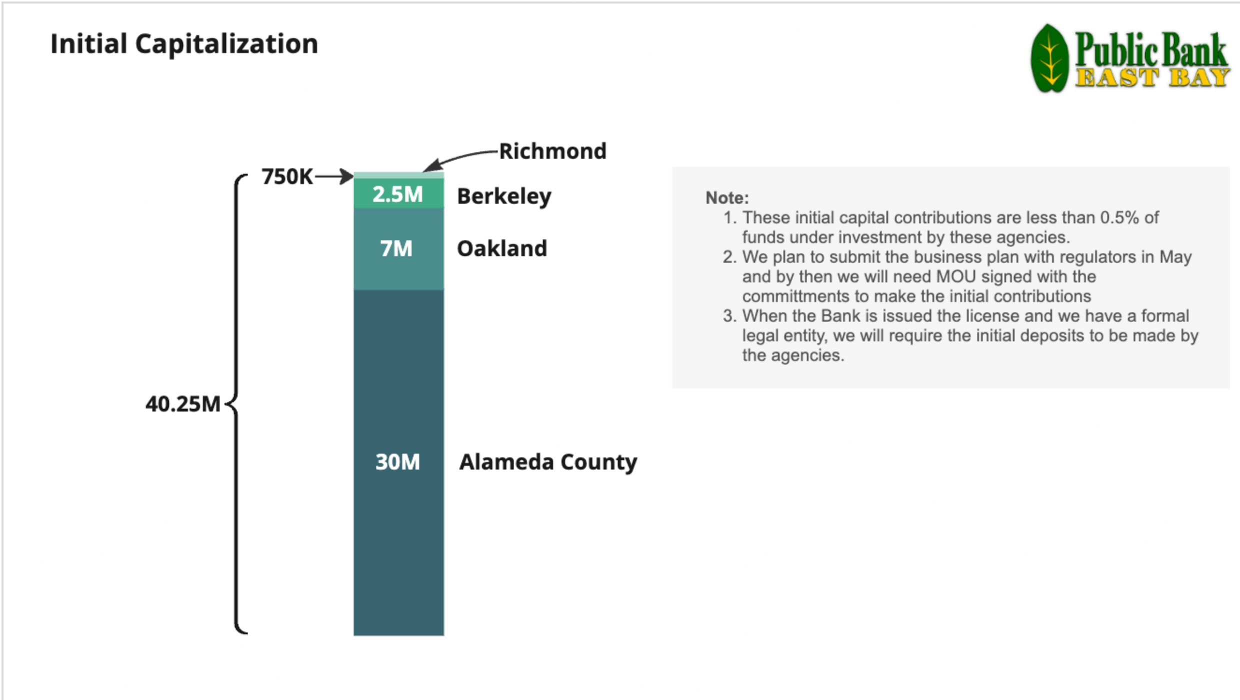
Initially, the Bank does not intend to form subsidiaries or service corporations. However, if the Bank identifies a business segment that it would like to pursue as a subsidiary or service corporation under the Bank during its first three years of operation, the Bank will seek prior regulatory approval for such subsidiary or service corporation.

Present Condition

PBEB is not yet an operating company. The resources needed to organize PBEB have not yet been contributed by the Municipalities. There are currently no operating companies, no office networks, staff, or customer base. Following is a list of strengths and weaknesses of the proposed Bank.

Strengths

- Board and Management: Experienced Board and management with backgrounds in finance working with LFIs.
- Marketing and Business Plan Implementation: The Bank will be focused in only a few areas of lending and will concentrate on working with LFIs to expand the marketing efforts to the targeted clientele.
- Market Opportunity: The focus of the lending products is designed to provide financing to businesses and residents of Alameda and Contra Costa Counties that do not have easy access to credit and will enhance the economic growth of the Municipalities.
- Competitive Banking Opportunity: The Bank will work with LFIs to expand credit within the market. While the major banks will continue to provide financial products in the market, these banks are not looking at long term partnerships or advancing credit to support a significant percentage of businesses and residents within the market. The East Bay market can support the Bank as well as other financial entities.
- Capital: The Bank will be capitalized with a minimum of $40 million in initial capital. This level of capital is deemed to be sufficient to support the growth of the Bank to achieve acceptable operations within the three-year de novo period while producing capital ratios in excess of regulatory requirements for well-capitalized institutions, even in the stress tested scenarios as presented in this Business Plan. The proposed capital level is deemed to be sufficient to provide the lending limits necessary to support the loan size demand of the Bank's targeted commercial clients.



Weaknesses

Note: the weaknesses of the proposed Bank are typical to any business startup and particularly for any de novo financial institution:

- No prior operating history and the expectation of initial operating losses.
- Adverse changes in local economic conditions may negatively affect profitability.
- Economic downturns could produce losses in the loan portfolio, thus impairing earnings.
- Competition from other financial institutions and from non-bank entities could adversely impact the performance of the Bank.
- Fluctuations in interest rates may impact earnings.
- Loss of senior executive officers could adversely impact the Bank.
- Inability to generate deposits or raise funds through other sources could negatively impact liquidity or raise the Bank's funding costs.
- The higher risks associated with a lending portfolio to startups and less capitalized borrowers.
- Existing and future increasingly complex and extensive compliance and regulatory requirements may add to overhead costs and reduce profit, especially in the early years of operation.
- Earthquakes or other natural disasters could adversely affect the Bank's operations and those of its clients.
- Terrorist attacks, cyber threats, and public health emergencies may affect the economy and Bank operations.

Location

In order to efficiently serve the intended businesses and individual customers, the Bank proposes to operate from a single office in Alameda County. To reduce operating costs, the Bank does not anticipate opening branches.

Details on the expected lease terms for the above location are included in the "Non-Interest Expense – Occupancy and Equipment Expense" section of the Financial Projections of this Business Plan.

Expansion Plans

At this time, there are no expansion plans or plans for the Bank to be involved in a merger or other form of acquisition.

III. Marketing Plan

Overview

Based on the current overall economic, local market, and competitive data, the Bank has reasonable prospects to achieve its financial objectives.

The "Market" section of the Plan presents data in support of the conclusion that the Bank's proposed target market presents a considerable opportunity for the Bank to generate its contemplated volume of loans and deposits.

The "Economic Component" section of the Plan examines the national and local economic outlook, demonstrating the economic environment in which the Bank plans to start its operation.

The "Competitive Overview" section of the Plan analyzes the banking trends in the East Bay, evidencing the need for a local institution to offer the level of service lacking at the large out of area institutions currently dominating the local banking industry. It's not just out-of-area based 'Big Box Banks.'

Business Development Strategy

Partnership Strategy

One of PBEB's principles is cooperation with LFIs that operate in the East Bay. These locally-based community-embedded lending organizations attract and develop trusted, long-term relationships with local residents, small business owners, and aspiring small business owners that make it possible to do safe, sound, character-leading lending and achieve high repayment rates over time while also working closely in difficult times to support the borrower's success in a 'we are in this together' manner. The Bank seeks to support their community-oriented activities by establishing lending relationships/partnerships that further expand the impact of LFIs. The Bank will establish these partnerships through a safe, sound, open and transparent process predicated upon the Bank's mission, principles and values. [Include complete list of LFIs that we have spoken to as that list develops.]

The Bank will solicit partnership proposals from LFIs through an initial Request for Qualifications ("RFQ"). The RFQ process will help ensure transparency and lay the basis for compliance with AB 857, which prohibits competition with existing banking institutions. The RFQ establishes a mechanism for LFIs to outline their interest and capacity in collaborating with the Bank and to inform its activities.

The Bank will issue the RFQ to all LFIs in the region and will publicize this opportunity through online and print media, as appropriate. Bank management will also consider webinars, individual meetings, industry conferences and/or a “roadshow” to present the Bank to regional LFIs and solicit their participation in the process. The RFQ will request that respondents provide a description of their organization’s mission and values, existing investment activities and products, target communities, track record, alignment with PBEB funding priorities, and recommended areas of collaboration with the Bank. The Bank will structure the RFQ to gather the necessary information without creating a process that is burdensome and time-consuming for potential participants.

Through the RFQ process, the Bank will identify LFIs that best align with its goals and confirm their expertise in serving the populations and sectors targeted for investment. Bank management will use information gathered through the discovery process and the RFQ to identify an initial list of LFIs with which to develop partnership agreements on lending, loan participations, loan syndications, and other mechanisms of supporting their activities through PBEB funds. These agreements will set the initial parameters for the selected LFIs to use PBEB funds, and should be designed in a way to enable nimble adaptation through learning and iteration and scaling as the model is proven out.

The Bank will evaluate these partnerships regularly based on alignment with its mission and desired impact. Management will consider whether to expand the list of partners through the original RFQ respondent list or through subsequent RFQs or other solicitation structures. At the same time, the Bank should establish an “open door” for LFIs to suggest investment and partnership opportunities. PBEB management will evaluate those pitches on a rolling, case-by-case basis.

The goal is to maintain a list of partners that help the Bank fulfill its mission and are open to new ideas and partnerships, especially as the Bank seeks to scale its lending volume and impact over time and to expand the types of products and services that it provides always in a safe and sound manner. It will also create mechanisms for partners to provide feedback to the Bank to strengthen its operations.

The Bank will work with selected LFIs to establish consistent data collection and reporting based on the approach described in Section IV.C. Impact Tracking. While all LFIs collect data on their activities and customers, they may collect slightly different data, so the Bank will coordinate with them to ensure that data collection is as consistent as possible while not being burdensome for its partners.

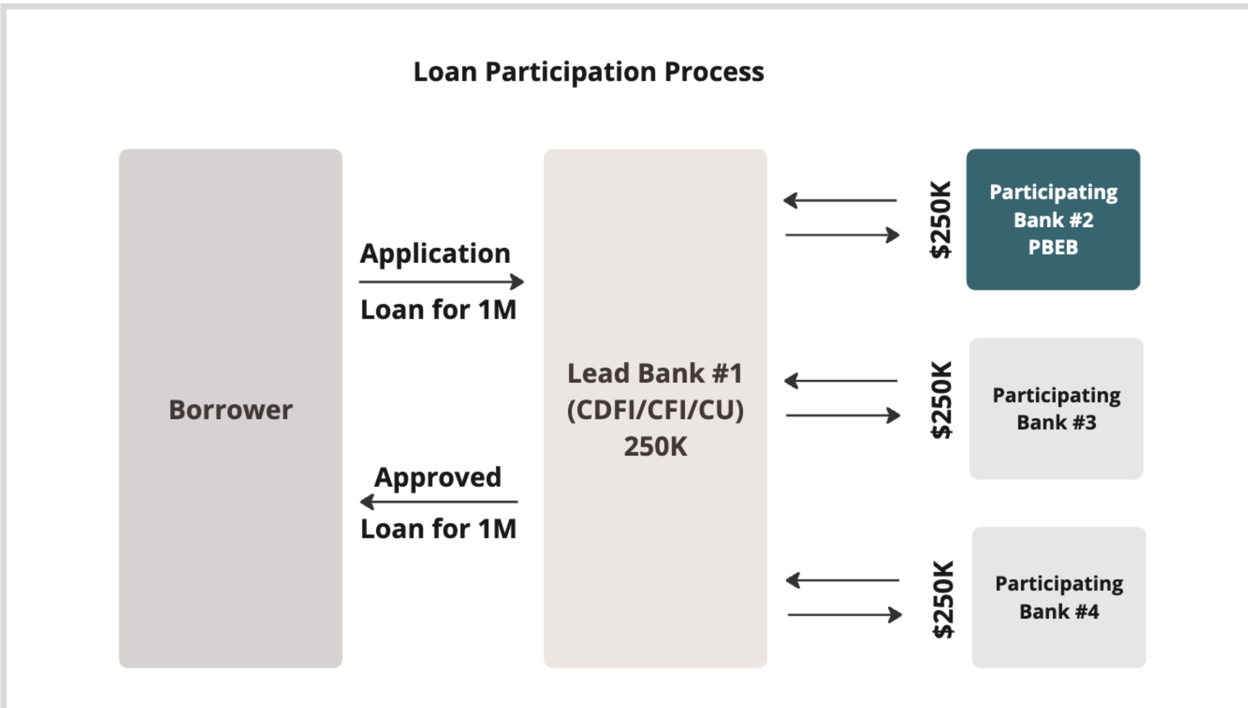
Product Strategy

Products and Services

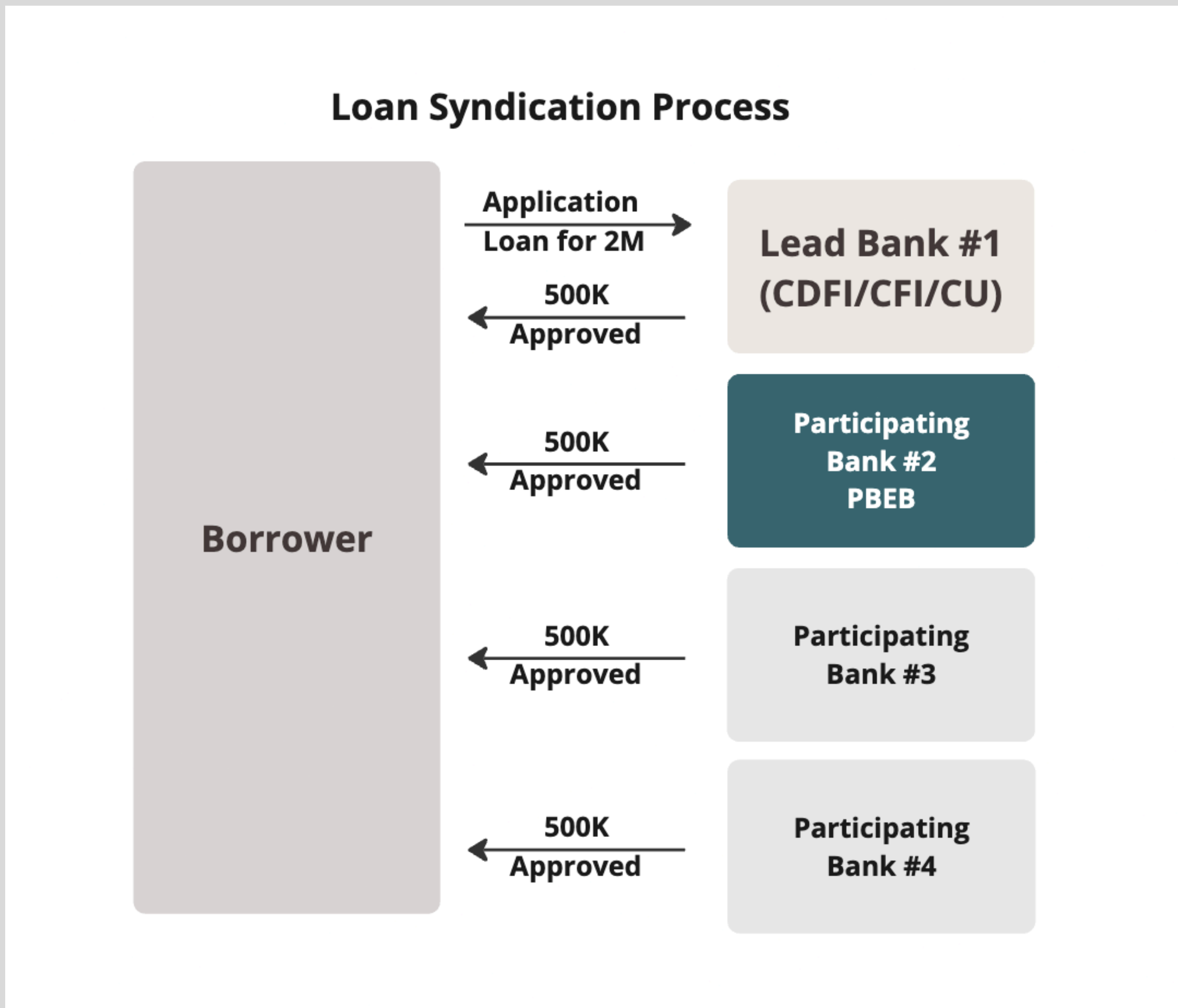
The Bank will operate via loan participations and syndications with trusted and prudently operated LFIs. Syndication and participation are two strategies deployed by lenders to properly manage risk, prudently increase loan size, improve operational efficiency, and enhance bank sustainability and performance.

A participation loan is an arrangement in which a lender (or several lenders) purchases a portion of an outstanding loan from a lead lender, from which it can collect principal and interest payments. A lender may choose to sell portions of an outstanding loan to reduce credit risk and/or increase liquidity, which can free up additional capital that can be deployed to other prospective borrowers.

. Loan Participation Process



A syndicated loan is a type of financing offered by a group of lenders, which pool together their capital to fund a large loan for a single borrower. This type of financing may occur when a borrower seeks a loan that is either too large or too risky for one lender to issue alone, thus requiring the recruitment of additional lenders to fill gaps.



While this business plan highlights multiple products and services that can help meet community needs, the Organizers recommend the Bank focus on a select few in its initial operating years. Specifically, the Bank should prioritize product offerings that are most feasible to operationalize in the near term, including those that:

- Help scale existing products offered by LFIs for which there is additional demand;
- Have potential to generate revenue within the first 3-4 years of PBEB operations;
- Do not require significant staff time for issuance and ongoing management.

Product prioritization will enable the Bank to maximize impact given current administrative and funding constraints. Each tool recommended in this business plan was analyzed based on implementation feasibility, the results of which can be viewed in Appendix A of this business plan. The most feasible products and services the Bank should prioritize are as follows:

PBEB Prioritized Lending Products

Lending Area	Need	Potential Demonstration Project Supported by Partner LFI
Affordable Housing Development and Homeownership	**Gap financing**	Provide a short-term loan to an affordable housing developer to cover immediate expenses (e.g., mortgage, payroll) as they await long-term loans.
	Short-term financing	Provide a short-term loan to an affordable housing developer to cover various pre-development expenses, which may include architectural fees, engineering fees, and acquisition costs, among others.
Local Enterprises	**Startup capital**	Provide a loan of up to $100,000 to a first-time entrepreneur to cover startup expenses, including (but not limited to) rent and/or lease improvements, payroll, equipment, and working capital.
	Growth capital between CDFI or credit union cap and commercial bank minimum	Provide a loan of $500,000 to an existing small business to cover expenses that will help them grow and/or scale operations (e.g., staff hires, rent and/or lease improvements, equipment, etc.).
	Transition financing to enable small businesses to become employee-owned	Provide 5-7 year loans in participation with existing employee-owner focused funds or other partners.
Green Investments & Environmental Justice	**Short-term debt for building electrification**	Provide short-term loans to property owners and community groups to perform energy efficiency upgrades and/or

		electrification for appliances.

This list may change following conversations and partnerships with LFIs that inform PBEB management on the types of loans that are most suitable to deploy rapidly while fulfilling both the Bank and its partners' objectives.

PBEB will set rates and terms for the above products based on PBEB funding conditions (see section _. Financial Management Plan), general market conditions, LFI partnerships, and conditions that would allow the entity to fulfill its business plan and fulfill its mission and principles.

Lending Criteria

PBEB acknowledges the long-standing inequities in traditional credit scoring models and underwriting criteria that have denied financial opportunities to many individuals and communities. To address these systemic barriers, the Bank is committed to implementing a more equitable lending framework that will extend financing to underserved communities in East Bay. The Board of Directors of the Bank will be directed to commit a substantial percentage of loans which the Bank commits to lending to underserved groups as set forth in the U.S. Climate and Economic Justice Screening Tool as referenced above. The exact percentage for the Bank's initial operations will be determined based on the Bank's mission and vision, as modulated by market conditions when the Bank opens.

To ensure the Bank fulfills its mission of promoting financial inclusion, most of the lending using PBEB funds will occur through partner institutions, such as LFIs. The Bank will select partner institutions that have a successful track record of serving communities that are often overlooked by traditional lenders. The Bank will also actively seek out opportunities to leverage the expertise and insight of LFIs to create innovative and equitable lending criteria for its different products and services.

The Bank will collaborate with existing initiatives such as Underwriting for Racial Justice and the California Small Business Coalition for Racial Justice. These initiatives are working to address systemic racism in the lending industry by developing more equitable underwriting standards that have expanded access to capital in California and the United States. By joining these initiatives, the Bank will leverage their expertise and insights to ensure that its products are accessible to a broad community of business owners, innovators, and social organizations. This collaboration will promote financial inclusion and reduce systemic barriers, ultimately contributing to sustained equitable economic development in the region.

This could include the Bank adopting approaches like the Small Business Coalition for Racial Justice's "New Cs of Credit," which are being tested by several institutions. The "New Cs of Credit" shift how lenders assess borrowers' Character, Capacity, Capital, Conditions, Collateral and Community to provide more holistic assessments of their capacity to repay and avoid using measures (like credit scores) that lead to inequitable lending outcomes.

The Bank is also committed to prioritizing language accessibility to overcome language barriers in credit access. The Bank will collaborate with partners serving diverse ethnic and linguistic communities to provide programs and information in the major languages spoken in the Bay Area region. The Bank will also focus on improving its own accessibility in various languages to reach a broader audience.

The Bank will apply safe and sound standards to its loans to ensure that they are consistent with its mission and principles and that loans do not support areas prohibited under the Overview of Lending Areas subsection of Section II.A. Bank management will set requirements on compliance with labor, environmental, and other standards.

Management will report to the Board of Directors on compliance with lending criteria.

Product Strategy

Products and Services

The Bank proposes to provide the products and services described in "II.A. Business and Market Niche." A comprehensive list is shown in Table 4.

Consolidated List of Proposed Bank Products and Services

Lending Area	Need	
Affordable Housing Development and Homeownership	**Patient and equity-like capital**	Provide longer-term (10+ years) and low-interest (no more than 2 percent) loans—potentially structured as equity equivalent products—to LFIs to finance long-term projects.
	Short-term financing	Provide pre-development loans to pay for a wide variety of expenses such as architectural and engineering fees, acquisition costs, among others.
	Gap financing	Help developers address mismatches between costs and revenue and to cover unexpected increases in labor and material costs through gap financing.
	Credit enhancement to serve customers perceived as riskier	Establish credit enhancement products to facilitate home loans to nontraditional borrowers who may lack standard credit indicators, following the practice of the large credit bureaus, taking account of reputational standing in granting credit. Considering character (as measured by reputation, among other guidelines) as a credit indicator.
	Guarantees	Set up guarantees—construction loan guarantees, completion guarantees, operating deficit, and tax credit—for affordable housing developers.
	Alternative products	Support the creation of alternative products and markets for less-common structures like land banks, community land trusts, and tenancy-in-common.
Local Enterprises	**Growth capital between CDFI or credit union cap and commercial bank minimum**	Provide loans between $350,000 and $1 million to support businesses, including unionized businesses, that are growing but still too small to receive adequate support from traditional banks.
	Startup capital	Provide microloans between $50,000 and $100,000 for entrepreneurs and business owners in early stages.
	Lines of credit	Provide line of credit servicing for businesses, especially those whose accounts receivable are on longer terms and whose accounts payable are on shorter terms (for example, construction businesses) to provide liquidity for immediate needs.

	Credit enhancement to serve nontraditional customers	Establish a loan loss reserve fund for LFIs to extend more loans to nontraditional borrowers, including co-ops and community land trusts.
	Marketing funds **Transition capital** for transition to worker ownership	Design a line of credit for brands that want to subsidize the cost of local marketing for their local partners. Design a loan product tailored to the needs of employees who are buying out an existing company to run as an employee-owned business.
Green Investments and Environmental Justice	**Short-term debt** for building electrification	Provide affordable, short-term financing for building- and homeowners to electrify appliances (water heaters, HVACs, furnaces, etc.), specifically targeting low-income communities.
	Public funding and patient capital for pollution cleanup	Provide longer-term (3-10 years) and low-interest loans to finance long-term infrastructure projects for environmental remediation.
	Subsidy and finance for electric vehicle (EV) infrastructure	Harness federal funding and private financing to meet rapidly accelerating demand for EV charging infrastructure.
	Tax credits for solar and storage	Leverage federal tax credits to support solar and storage in low-income communities.

Initially, the Bank does not plan to have any subsidiary operations. To the extent that the Bank in the future creates operating subsidiaries, subject to prior regulatory approval, to provide certain services described in this application, all intercompany and deemed affiliate transactions as between those subsidiaries and the Bank will be done pursuant to the Affiliate Transaction Policy, intercompany agreements, and in compliance with the laws and regulations concerning transactions among bank affiliates. Such operating subsidiaries may include those used for the purposes of tax advantaged loan portfolio maintenance, provisioning of wealth management services.

Product Offering Methods

The following will serve as the Bank's primary distribution channels:

- The Bank will establish partnerships with LFIs to identify customers. This network of local organizations, in addition to programs managed by the Municipalities, will provide referrals for loans and other products. Additionally, the Bank will work directly through this network to purchase assets from LFI balance sheets, make loan participations with them, and make loans and offer other financial products directly to them. The Bank will invest resources prior to opening to ensure that it has a robust network of partner financial institutions to generate the required loan volume from the Bank's commencement of operations.
- The Bank will have an appropriate operating infrastructure and control mechanism in place prior to the rollout of products and services. The costs of rolling out products and services are tied to the infrastructure, core data processing requirements and capabilities, furniture, fixtures, and equipment, as well as staff costs. These costs are captured in the pre-opening costs, which represent the expense of establishing the Bank and introducing the Bank's products and services, including the investment in the Bank's premises and equipment, and the non-capitalized pre-opening expenses.
- The Bank will establish strategic alliances and a referral program with third parties to assist its customers in obtaining comprehensive solutions to their banking needs. The Bank will create a Vendor Management Policy that will serve as a guide in the evaluation, selection, and management of third-party vendors.

Secondary Market Activity

The Bank will buy and sell loan participations with LFIs but at this time there will be no hedging or loan securitization activity. The Bank also does not expect to use forward take-outs. The Bank will work with LFIs related to servicing of the various loans that are on the books of the Bank.

Primary Sources

Marketing/Promotional activities

The Bank's marketing and promotional activities will include building a reputation for providing our customers/prospects/targeted communities the best and responsive customer service in the market, and a relevant array of needed products and services and for working closely with LFIs within the market.

Because communities of color harbor mistrust of financial institutions due to pervasive discriminatory lending, the Bank, its Board members and its partners (i.e., LFIs) should perform targeted outreach to Black, Brown, and women entrepreneurs to establish confidence, awareness of our Bank mission and products/services and encourage participation.

Advertisement

In addition to a web presence, to augment its business development efforts, the Bank may, on a limited basis, run occasional print ads in local newspapers or online ads with local targeting featuring its products, partnerships with local LFIs, and testimonials.

e-Commerce

Currently, the Bank has no plans to enter into any arrangements with e-commerce financial product platforms to market or deliver its banking services through the Internet.

Market Analysis

Geographic Area

The Bank will initially prioritize three product/service needs: affordable housing development and homeownership; local enterprises (small business); and green investments to facilitate environmental justice. The geographic focus of the Bank will be on the region known in the San Francisco Bay area as the East Bay—roughly Alameda and Contra Costa Counties. The Bank will serve projects or businesses located within, and persons residing in the East Bay area. As described in "Product Strategy" above, these markets have hundreds of millions if not billions of dollars in unmet demand.

Target Market Demographics

The PBEB's loan policy will be focused on ameliorating demographic investment disparities currently seen in its priority investment areas: affordable housing including land trusts, small business including employee-owned enterprises, and green energy.

In 2022, Black or African-American residents of Alameda and Contra Costa Counties made up 9% of households, yet only received 2.8% of mortgage originations from banks in the East Bay. Similarly, Hispanic or Latino East Bay households made up 18% of total households yet only qualified for 7.3% of mortgage originations. While Black and Hispanic residents are underserved by banks in the mortgage market. Non-Hispanic white and Asian residents – who respectively make up 19% and 28% of East Bay households – are overrepresented in banks' mortgage origination activity, with 33.5% and 38.4% of total bank lending going to these respective borrowers. This disparity in mortgage lending is all the more troubling in light of the pre-existing racial homeownership gap. In Alameda County, the Black-white homeownership gap is 32 percentage points, and the Hispanic-white homeownership gap is nearly 15 percentage points. The Black-white homeownership gap in Contra Costa is also 32 percentage points, and the Hispanic-white homeownership gap is 18 percentage points.

Disparate investment in sustainable and clean energy outcomes is directly related to disparate social determinants of health[49]. This shows up[50] not just in life expectancy overall, but in cardiovascular disease frequency, low birth weights, asthma rates[51], and pollution burden, to name a few. In addition, Alameda and Contra Costa Counties are the home of several superfund sites, often in or near marginalized and/or low-income neighborhoods[52]. Research into these sites reveals that many are in very early stages of remediation and/or considered low priority. The Bank will be in a position to work with partner lenders and government representatives to move clean-up operations forward.

Inequitable representation and disparities in access to capital are also seen in small businesses in the East Bay area. In 2020 in the San Francisco-Oakland-Hayward Metropolitan Statistical Area, Black-owned businesses made up only 0.16% of employer firms, despite representing approximately 7% of the population 18 years or older. Similarly, Hispanic-owned employer firms only comprised approximately 3.2% of all employer firms despite being 19.5% of the population 18 years or older.

Economic Component

Economic Forecast

To be completed by the Organizers and Municipalities at the time of preparation of the final application.

Implications for Banking

Refer to the Executive Summary for an overview of needs for the Bank's products and services that will form the baseline demand in future economic scenarios.

To be completed by the Organizers and Municipalities at the time of preparation of the final application.

[49] National Equity Atlas (2020). Life expectancy by race/ethnicity. Available per county. https://nationalequityatlas.org/indicators/Life_expectancy?geo=04000000000006001
[50] CalEnviroscreen census tract data matched with tract demographic data from 2023 Census Flat File. Retrieved from https://www.ffiec.gov/censusapp.htm
[51] Asthma rate percentiles per census tract calculated by CalEnviroscreen 4.0. Data available from https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-40
[52] References include California's Department of Toxic Substances Control's Envirostor CORTESE list. https://dtsc.ca.gov/state-superfund-program/ and https://www.waterboards.ca.gov/water_issues/programs/ustcf/

Competitive Analysis

Potential Competition

The Bank will face competition from various financial institutions including national, regional, and community banks operating within the Bank's market area, as well as non-bank institutions including savings associations, credit unions and other financial intermediaries. The Bank could also face competition from fintech companies as those companies offer products and services traditionally provided by banks either directly or through partnerships with other banks. The Bank will focus efforts on working with local LFIs and that the products and services are to be designed to coordinate with LFIs

IV. Management Plan

Introduction

The governance structure outlined within this Plan seeks to establish an entity that is accountable to the goals, values, and communities of the East Bay it will serve, and will uphold those goals through safe, sound, effective and independent corporate and financial management. This governance structure reflects feedback received from the DFPI and the FDIC on control and conflict issues and ensures that the Bank is held accountable to the high standards demanded of an institution that is capitalized and funded by municipal funds. As a result, the Bank's proposed governance, specifically the commitment, which will be reinforced in the Bank's bylaws and organizing documents, that the Board will always have a majority of community directors as contrasted to government representatives, will make the entity independent from political influence while enabling it to fulfill its public mandate.

Mission and Principles

Mission

PBEB will promote an economy that upholds equity, social justice, and ecological sustainability.

Principles

- Public Ownership: Remain a publicly owned entity that reinvests profits in support of its mission.
- Local Control: Operate for the benefit and on behalf of the communities of Alameda County and the Cities of Berkeley, Richmond and Oakland.
- Community Wealth Building: Promote community ownership and community wealth building.
- Public Welfare and Restorative Finance: Invest to enhance the welfare of all the people of Alameda County and the Cities of Berkeley, Oakland and Richmond, especially communities underserved by mainstream commercial banks and that have suffered from the historical legacy of redlining, wealth disparities and harmful social, economic, and environmental practices.
- Cooperation: Cooperate with existing community financial institutions and organizations, strengthening the lending capacity of community banks, credit unions, community development financial institutions to better serve more members of our target communities, by partnering, rather than competing, with them on financial products and services.
- Accountability and Transparency: Ensure community oversight, accountability, and transparency in Bank operations.

- Indigenous Rights: Act to honor the Bank's presence on Ohlone land, protect sacred sites, support Indigenous land trusts, and uphold Indigenous people's right to Free, Prior, and Informed Consent.
- Harm Avoidance: Refrain from investing in sectors that exacerbate negative socioeconomic and environmental outcomes, including predatory lending, fossil fuels, tobacco, firearms, other weapons, prisons and detention centers, and businesses holding a record of labor law violations.

Governance Model

In October 2019, the state of California enacted the California Public Banking Act, AB 857, to provide a pathway for local government agencies to charter public banks. Over the last few years, the County of Alameda and cities of Berkeley, Oakland and Richmond (the "Municipalities") have been working with the Friends and other groups to create a business and governance plan to establish a state-licensed public bank that will serve Alameda County and the cities of Berkeley, Oakland and Richmond. Among other requirements, the plan must include the business plan elements required for a State public bank license and the plan must recommend a governance and regulatory structure for the creation of the PBEB.

Why the East Bay Needs a Public Bank

The current national, California, and East Bay financial systems are not meeting the needs of the East Bay. The urgent issues we face include:

- The ongoing climate crisis is inescapable. Localities cannot wait for a paralyzed federal government to deliver and must find ways to increase local funding for initiatives that will dramatically reduce greenhouse gas emissions and increase availability and affordability of green energy solutions.
- The Bay Area is experiencing a housing crisis of extreme scale, visible along so many major thoroughfares. Quality affordable housing that does not accelerate displacement is desperately needed, and solutions cannot take ten years to ramp up. New local funding, along with streamlining availability of existing funds, is badly needed.
- Small businesses, especially those owned by Black, Indigenous, and other people of color, lack funding. Nationally the unmet credit needs among entrepreneurs of color are 15-25% higher than those of white entrepreneurs.
- Worker cooperatives, employee-owned firms, community land trusts, and other community-based models of ownership are poised to grow in scope and scale, but they are often unable to access traditional bank funding.

The governance structure outlined within this Management Plan is a model generated by the Friends, the proposed Bank Directors, the CEO, and The Findley Companies as consultants on this project. The purpose of this Management Plan is to commence communication with the DFPI and the FDIC and to seek comment related to the governance structure because this type of community-majority governance model has not been used for an FDIC-insured entity and that PBEB will be capitalized by governmental agencies.

In any publicly-owned entity inclusive of financial institutions that are regulated by the DFPI and FDIC, a major focus of a governance plan is how can we ensure that PBEB is sufficiently independent from undue political influence, while also fulfilling its public mandate. This governance plan is grounded in a set of mission and principles. A public bank without a public mandate rooted in its constituencies' values would simply be another for-profit entity subject to the changing tides of politics.

PBEB will invest public monies from participating governmental agencies to meet the needs of local communities. PBEB will seek to return a reasonable, but not excessive, profit to its stakeholders by making economically sustainable loans and providing a high level of service to its partners and stakeholders. It will adhere to the principles of the United Nations Declaration on the Rights of Indigenous People, and will prioritize environmentally regenerative, culturally equitable and participatory practices that do not reproduce the historical discrimination against members of economically and socially marginalized communities.

PBEB's decisions will be based on five key values:

- <u>Equity</u>: We are committed to a public bank that acknowledges and attempts to relieve the contemporary and historical burdens carried by disenfranchised communities, including low-income communities of color and other marginalized groups.
- <u>Social Responsibility</u>: Decisions regarding loan recipients, sponsored projects, and who benefits from PBEB policies will all prioritize investing our money into the wealth and health of local communities and the environment.
- <u>Fiscal Responsibility</u>: As a steward of public money collected by depositing public agencies in the East Bay, PBEB is committed to very strict compliance with the directives and policies of state and federal regulators. It is equally committed to active and constant attention to managing risk and making fiscally prudent and responsible decisions to maintain PBEB in a fiscally safe and sound condition.
- <u>Accountability</u>: PBEB is accountable to the residents of the East Bay, who have a right to fully transparent explanations of PBEB's actions and choices.
- <u>Democracy</u>: PBEB will be governed using inclusive and participatory processes which consciously and intentionally adhere to the values/principles listed above.

PBEB's primary function is to employ public funds to meet public needs. This will entail working with member government agencies (initially the cities of Berkeley, Oakland and Richmond, and the County of Alameda) to gradually redirect tax and fee assets and locally generated funds to:

- Increase available capital to the local economy with a focus on affordable and community-controlled housing, small-business and worker owned lending, and green infrastructure projects.
- Support equitable economic development in the region. By prioritizing the least served businesses and by attending to local infrastructure needs, PBEB can provide money to various enterprises and initiatives that are currently neglected, jump-starting needed changes with increased resources.
- Manage and invest municipal funds safely, soundly and cost-effectively. Safeguards, regulatory oversight and conservative loss reserves will make PBEB a reliable guardian of public funds.
- Enable local governments to redirect public funds from Wall Street banks. The nation's big banks invest our money in places that are not only irrelevant to our communities but are actively harmful to them. Those practices cannot change without adequate alternative institutions to manage those dollars.

- Harness public funds to invest in public goals. Traditional banking models incentivize decision-makers to prioritize profits above all else. PBEB will remain committed to financial viability, safety and solidity, balancing the essential need to be profitable with its commitment to our region's social needs and the Bank's social mandates.
- Nimbly, transparently, and democratically modify these goals as local priorities change.

To meet these goals, PBEB will partner with and complement LFIs. PBEB will be managed by professionals experienced in banking and community finance, independent of the member counties and cities. It will have a strong democratic and multi-stakeholder operational and governance structure, including a Board of Directors with substantial banking and financial experience, and community members and representatives of local governmental agencies. The mission, operations, and decision-making of PBEB will ensure financial viability and sustainability while prioritizing creating community value above maximizing profit.

As a democratically organized financial institution with strong community oversight, PBEB will be governed by a Board of 13-17 people who bring vast banking and financial expertise along with social justice experience. The Board members will have a varied knowledge base and a shared commitment to representing and meeting the needs of systemically underserved communities – and all East Bay residents. Meetings will be public except for discussion of private customer and partner information, personnel matters and appropriate regulatory issues; and PBEB will hold a highly publicized annual meeting to share results with the community and seek feedback on future priorities. PBEB and the Board will also adhere to the highest standards with regards to records accessibility and transparency.

PBEB will be a low-overhead enterprise, with a small staff to run lending programs in partnership with existing local financial institutions. The lending programs will include:

- Making loans to local small businesses, in cooperation with LFIs;
- Providing nimble capital to community focused affordable housing developers for property acquisition, bridge financing, or foreclosure prevention, as well as financing for rehabilitation projects;
- Extending credit to help the East Bay do its part to ameliorate the climate emergency, financing building electrification as well as small-scale renewable energy installations;
- Supporting municipal finance, by providing modest credit to the member governments for small projects in a safe and sound manner.

As PBEB grows and adds capacity, it will also be able to provide an alternative to Wall Street banks for cash handling for the member governments. This expansion can only happen when the Bank can add sufficient staff, fixed assets, and manage compliance costs. Through careful management of these programs, PBEB can deliver benefits worth many times the initial investment and provide a vibrant institution that is a vital and sustainable part of the East Bay economy for decades to come.

PBEB shall adopt mechanisms for ensuring community oversight, accountability, and transparency.

AB 857 restricts public banks to local agency banking, infrastructure lending, wholesale lending, participation lending, and only retail activities where those activities are not already provided by local financial institutions. As a result, AB 857 prohibits public banks from most direct personal lending and provides fewer opportunities for self-dealing among commissioners or directors. Nevertheless, in addition to standard Form 700 filings and other ethics training required in governmental civil service, the

PBEB Board shall adopt policies to prevent conflicts of interest such as requiring members to report their conflicts to the PBEB Board and abstain from any votes regarding such conflicts.

Board of Directors, Board Committees and Management Structure

The PBEB Board is ultimately responsible for managing the activities of PBEB and has fiduciary duties including answering to regulators.

As mandated by AB 857, PBEB will be a public benefit corporation, and regulations regarding directors of a public benefit corporation will govern. The Board of Directors of any bank, including PBEB, sets general policy, ensures continuing integrity and alignment with PBEB's mission, and is responsible to the stakeholders, in this case the founding depositors and all residents of the East Bay for PBEB's decisions and policies. The Board is also subject to additional scrutiny from the various regulatory agencies that will oversee the safety and soundness of PBEB. The initial Board members will be chosen based on their ability to make sound banking decisions, their adherence to PBEB values, and the understanding that people closest to the problems being addressed are the people with the most robust, innovative, and productive solutions.

Board Composition

The Board will be composed of people with very strong banking and financial expertise, including the CEO of the Bank, and people who can represent and convey the needs of the various East Bay communities, along with representatives of systemically underserved and under-represented communities, with an unswerving emphasis on financial experience. Directors will be chosen from a substantial pool of applicants identified and initially vetted by the experts creating the Bank charter application, and then further vetted and examined by state and federal regulators, specifically including DFPI), the FDIC and representatives of depositing agencies. All Directors will be accountable to the mission and values of PBEB. Above all, the Board will rigorously and prudently oversee the safe and sound operation of the bank. The Bank's corporate bylaws will specify both the committee structure and the proportion of government representatives on the Board.

Because it is beneficial to the Bank and its customers to obtain and retain the FDIC Minority Depository Institution status, the Board, under the terms of the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA"). Section 308 of FIRREA defines a "minority depository institution" as any Federally insured depository institution (IDI) where 51 percent or more of the Board of Directors are currently "socially and economically disadvantaged individuals." The term "minority" is defined as any "Black American, Native American, Hispanic American, or Asian American."

In addition, the Treasurers of member agencies, if they are not their agency's appointed representative, will be ex officio non-voting members of the Board and will be able to attend meetings of the Board under observation rights with no voting capacity. Those parties who will attend the Board meetings will execute confidentiality agreements in order to protect privacy of customer information and will not be able to attend meetings with the various regulatory agencies for PBEB without specific written consent from the regulatory agencies.

In our research, we determined that a Board of 13-17 members (including the CEO), all committed to the same mission and values, is key to keeping the representation diverse and ensuring that PBEB is connected to the needs and concerns of the people it serves. The Chair of the Board will attempt to keep the number of Board members as an uneven number to prevent tie votes, but it is understood that there may be transition periods when the Board will have to function with an even number of Directors.

All potential Directors are required to fill out an application and go through an initial organizers' interview process, as well as undergo formal vetting by an appropriate professional third party. By California law and DFPI process, all Directors will be subject to a rigorous state-run vetting including a conflict-of-interest evaluation and also background checks and fingerprinting. Also per California law, no one will be permitted to serve on the Board if they cannot resolve any issues which arise in the vetting process to the satisfaction of the DFPI and other regulators.

The Board will also be subject to a Code of Conduct related to each Director's continued service on the Board.

Applicants will be asked to commit to serving for at least a three-year time period. One-third of the initial Board members will be appointed for a one-year term, one-third for a two-year term, and one-third for a three-year term. For stability on the Board during the initial three years of operation, it is intended that the initial one-year term and two-year term appointees will be reappointed for a full three-year term when their initial term ends.

Once a complete operating Board is chosen, preliminary vetting of future Directors will be turned over to a committee of the Board. After three financially sound years of operation, we expect the regulators to defer Director screening to the Board of Directors.

Creating a Board of Directors with as much community representation as possible is worth the challenge and will result in the Bank meeting the needs of more of its residents. Because some community representatives may not have had previous financial experience, providing ongoing educational resources to such Directors is essential. In the future, the advocates plan to create a public-bank focused Academy to educate Bank Directors; in the interim, the start-up costs will pay for educational resources for Directors, such as the programs at Bank Director and the FDIC. Existing manuals for bank directors will also be used as reference material.

All Directors will be required to participate in annual trainings and to demonstrate sufficient familiarity with banking theory and practices.

Terms and Removal of Directors

Most Directors will serve a three-year term; however, the initial Board appointees will serve staggered terms (as discussed above) so that one-third of the Board Members' terms end each year. Once the initial Directors have served their three years, the financial and community Directors' terms will become staggered, so that five people's terms will expire at the end of the third year and five at the end of the fourth year. Initial Directors will opt for one of these term lengths, with a fallback of a lottery if the opting does not work out appropriately.

In addition, the initial Board will be tasked with creating a process, in compliance with California law, for removing Directors if legal or reputational disqualifications are uncovered after their appointment, or for inactivity. This process will be defined in the business plan for PBEB. Board members will also be removed if requested by the regulatory agencies.

Relationship to Bank Management, Staff, and City and County Governments

The initial CEO will be identified at the beginning of the licensing process. Oher key senior management personnel will be identified during that process or once the license is granted. After that, the Board will be responsible for renewing the CEO's contract or selecting a new CEO. The Board will have the right to review and approve the appointment of senior management other than the CEO. Otherwise, while the application is in progress, the Board candidates will review and recommend the appointment of additional Bank management, some of whom will then have to be confirmed by state and federal regulators.

Directors will have access to confidential customer financial information and will be subject to confidentiality and privacy constraints as required by law and by the Bank's regulations. Directors will not participate in Bank management's decisions with respect to extending or denying credit to any individual or entity where such Director has any conflict of interest. Directors will be responsible for ensuring that the Bank has a robust and reliable policy specifically drafted to prevent unlawful insider transactions and Board Member conflicts of interest while also ensuring that partnerships, loans, lines of credit, and other Bank services are scrutinized for potential conflicts both before they are initiated and while they are active.

The PBEB charter will include a provision for non-liability of Directors, and the initial budget includes professional errors & omissions insurance. The CEO and the Chair of the Board will report to the sponsoring agencies and other government stakeholders every six months for the first three years and at least annually after that. The ex officio members of the Board will present ongoing reports to their agencies. Internal and external audits will be conducted at least annually to ensure that bank assets are being reported honestly and used constructively.

PBEB will incentivize managers and loan officers with long-term benefits like job stability and community recognition, not with exorbitant salaries, short-term performance metrics, or bonuses. In addition, the Board will establish a maximum executive compensation ratio; for example, PBEB's lowest-paid full-time worker should earn no less than 1/5 of what the CEO earns, with a Bay Area living wage as the baseline for lowest-paid workers. PBEB's charter or other governance instruments will also establish a mechanism, such as an annual performance audit by an independent third party, by which the Board can evaluate management performance and take appropriate steps if the Bank incurs any losses.

PBEB Directors will be responsible for fostering and maintaining a bank that is prudently managed in a safe and sound manner, financially sustainable, responsive to regional priorities, and a leader in fair and equitable treatment of employees through adopting appropriate best practices employment policies, including, but not limited to,

Compensation

Community Directors will be paid a modest annual stipend for serving on the Board to make the position more accessible to all community members. They may refuse the stipends if they so choose. The feedback we received through interviewing activists and organizational leaders supported the need for these stipends. However, Directors who are appointed by cities or other agencies will not be eligible for these stipends.

Frequency of Meetings

The Board will initially meet monthly and more frequently at the discretion of the Directors. We anticipate that the initial Board meetings will need to be more frequent, until procedures are in place and the Bank is running smoothly.

Public Access

Modeling city councils and county boards of supervisors, community college districts, and many other public bodies, PBEB meetings will be open to the public as much as possible, with closed-door sessions as needed. The Directors will also hold an annual public meeting to encourage community awareness of, connection to, and appreciation of PBEB.

In especially sensitive situations, the Directors may desire to hold regular or special meetings at which no PBEB senior management is present. At these meetings, Directors may frankly discuss any concerns they have with Bank management.

The Board will also undertake periodic formalized self-assessments of its processes and practices.

Governance

The following governance structure is proposed for PBEB:

- With the exception of the Asset Liability Committee ("ALCO"), Board level committees will be chaired by independent directors. "Independent directors" are members of the Board who do not also serve as management of PBEB.
- The appointed Chief Financial Officer ("CFO") will Chair ALCO and the appointed President & CEO will be a voting member of that committee.
- As Executive Management team members, the Chief Credit Officer ("CCO"), CFO, Chief Risk Officer ("CRO") will present and lead discussions in committee meetings but will not be voting members of any Board committee with the exception of the CFO and CEO on ALCO and the CCO and CEO on the Loan Committee.
- The Board will arrange an even distribution of committee assignments without overly taxing any individual Board members.

Outside directors will include individuals with prior bank board, bank regulatory experience, subject matter expertise in a lending focus of PBEB, and/or community involvement. The proposed outside Board members will all be experienced businesspeople and will have sat or sit on corporate or non-profit boards.

Proposed Directors

The following table lists the desired and expected experience of the proposed directors.

PROPOSED DIRECTORS AND EXPECTED EXPERIENCES

ROLE	EXPERIENCE
Chief Executive Officer	Experienced CEO of a LFI or regional bank C Suite officer.
Outside Director 1	Experienced LFI Director or C Suite Officer with Financial Expertise.
Outside Director 2	Experienced LFI Director or C Suite Officer with Financial Expertise.
Outside Director 3	Experienced LFI Director or C Suite Officer with Financial Expertise.
Outside Director 4	Experienced LFI Director or C Suite Officer with Financial Expertise.
Outside Director 5	Experienced LFI Director or C Suite Officer with Financial Expertise.
Outside Director 6	Subject Matter Expertise in Small Business Lending and Diversity with Financial Expertise
Outside Director 7	Subject Matter Expertise in Affordable Housing with Financial Expertise
Outside Director 8	Subject Matter Expertise in Green Energy with Financial Expertise
ROLE	**EXPERIENCE**
Outside Director 9	Community Representative or Community Leader
Outside Director 10	Community Representative or Community Leader
Outside Director 11	County of Alameda Representative
Outside Director 12	County of Alameda Representative
Outside Director 13	City of Berkeley Representative
Outside Director 14	City of Oakland Representative
Outside Director 15	City of Richmond Representative
Non-Voting Attendee 1	City Treasurer Representative
Non-Voting Attendee 2	City Treasurer Representative

Board Committees

The following table provides a list of Board committees with their core functions and proposed composition. An outside independent director will serve as the Board's Chairperson.

COMMITTEE	CORE FUNCTION	PROPOSED MEMBERSHIP*
Audit/Risk Committee	Oversee the audit function. Monitor and set policy around operational, information security, market, and financial and credit risks. Oversee compliance, ERM, and CRA areas.	3 to 4 Outside Directors CRO Is Management Liaison
Loan Committee	Set credit policy and monitor management of credit risk.	CEO/CCO and 3 to 4 Outside Directors

Asset-Liability Committee	Manage the Bank's asset and liability profile and interest rate risk management.	CFO/CEO and 3 to 4 Outside Directors
HR/Governance Committee	Oversee HR/Compensation policies and procedures; Ensure appropriate corporate governance	3 to 4 Outside Directors CEO is Management Liaison

* The executive officers will participate in all committees as needed.

The following section provides summaries of duties and meeting frequency of each committee. Please note that in the initial period of the Bank's operations, Board-level committees are likely to meet more frequently than the meeting frequency detailed in the following descriptions. Initially the committees will meet to review and refine the initial sets of policies and procedures, as recommended by management. The committees will evaluate and recommend monitoring systems and reports as a way of ensuring that systems are in place and are closely monitored to review reports and schedules associated with the relevant committee duties.

Audit/Risk Committee
(Meets at least quarterly)

Audit Duties

- Fulfill duties delineated in PBEB's Audit Policy.
- Serve as an independent body reporting to the full Board.
- Attend regulatory examination, external audit, and credit review meetings.
- Select and appoint independent registered public accounting firm for the financial audit.
- Supervise the audit function to verify that auditors, internal and external, are independent of Bank management and are objective in their findings.
- Monitor management performance in the correction of deficiencies noted in an audit or regulatory examination.
- Hire the Bank's internal audit manager and loan reviewer and monitor such review activities.
- Ensure that the internal audit manager can be terminated only with the approval of the committee.
- Review annual CPA audits, state and federal examinations and report findings to the Board of Directors.
- Ensure financial risk management functions are independent and communicate risk management concerns to the full Board.
- Coordinate, monitor and report to the Board the status of PBEB's compliance with federal and state banking laws and agency regulations.

Risk Duties

- Formulate compliance and enterprise risk management plans.
- Monitor systems to ensure compliance.
- Establish overall risk tolerance for PBEB.
- Establish a system of internal controls, independent testing and auditing to ensure compliance with the Bank Secrecy Act.
- Establish procedures to ensure effective identification and monitoring of high-risk accounts and areas.
- Establish objectives and priorities for information technology projects.
- Review and approve the implementation of major operating systems including core data and item processing.

- Review and approve significant changes or enhancements to alternate customer delivery channels including Internet banking and automated voice response systems.
- Review and approve significant local and wide area network changes and upgrades.
- Review and recommend technology policies for compliance with regulatory guidelines.
- Review and approve PBEB's Disaster Recovery & Contingency Plan and PBEB Security Policy on an annual basis.
- Monitor information technology performance for its contribution towards the attainment of the Bank's overall strategic plan.
- Ensure operational risk management functions are independent and communicate risk management concerns to the full Board.
- Determine frequency of employee and Board training.
- Oversee CRA compliance (if required).
- Coordinate, monitor and report to the Board the status of PBEB's compliance with federal and state banking laws and agency regulations.

Loan Committee
(Meets at least monthly)

<u>Duties</u>

- Establish the credit risk tolerances and ensure that an adequate reserve has been provided against potential losses in the credit portfolio.
- Require that management report on the handling of credit risk and their compliance with Board decisions regarding acceptable levels of risk.
- Review and recommend changes to Credit Policies and Procedures.
- Review and approve the delegation of loan approval authorities, as appropriate, if such approval is consistent with the Credit Policy and deemed a non-material change by the Committee.
- Require that management report on the monitoring of loan officer compliance with lending policies.
- Verify that management follows proper procedures to recognize adverse trends, identify problems in the loan portfolio and maintain an adequate allowance for loan and lease losses.
- Review and recommend for full Board approval PBEB's ALLL methodology and no less than quarterly, review Management's recommendation of PBEB's ALLL.
- Meet as needed to review loan requests and make credit decision recommendations on loans requiring Board Approval in accordance with PBEB's Credit Policy.

Asset-Liability Committee (ALCO)
(Meets at least quarterly)

<u>Duties</u>

- Fulfill duties required by PBEB's Asset-Liability and Funds Management (ALM) and Investment policies.
- Review and recommend changes to ALM and Investment Policies.
- Oversee actions relating to interest rate, liquidity, and capital risk exposures.
- Approve management strategies regarding interest risk exposure, investment securities, deposit programs, and lending initiatives.
- Approve investment strategies and review investment positions in securities.

Human Resources/Governance Committee

(Meets at least quarterly)

Human Resources Duties

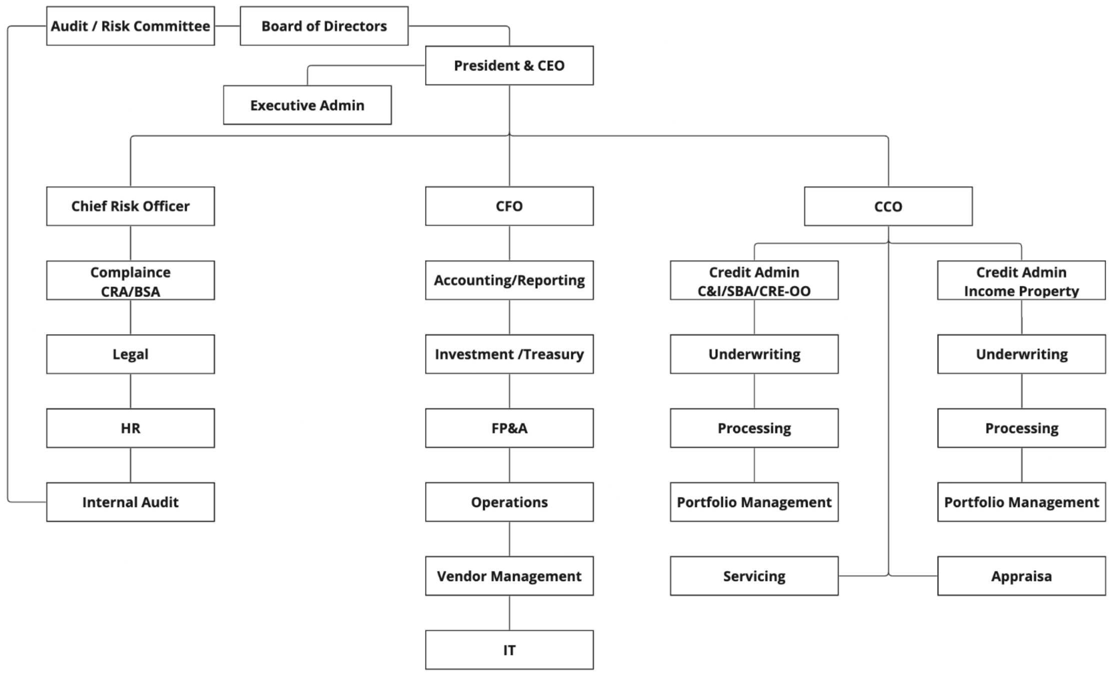
- Review and approve management's recommendations for title, promotion, salary and bonus for PBEB's executive officers and allocations for other employees of PBEB.
- Establish, review and monitor personnel policies of PBEB.
- Review and approve incentive compensation plans and other employee benefits and similar plans.
- Review performance evaluations of executive officers and year end evaluations and self-assessments for non-executive officers.
- Review and oversee total compensation and personnel practices to ensure that PBEB is competitive and meets all regulatory requirements.

Governance Duties

- Review and advise with respect to issues and policies affecting the governance of PBEB; periodically reviewing PBEB's Affiliate Transaction Policy, Code of Ethics and Conduct Policy, Succession Planning Policy.
- Conduct the process of director independence, evaluation, self-assessment, and selection for recommendation for appointment to the Board and its committees.
- Conduct succession planning in accordance with PBEB's Succession Plan for the role of the Chief Executive Officer, and in consultation with the Chief Executive Officer concerning other appointed executive officers.
- Review and recommend director slate for review and approval.

Organizational Structure/Officers

PBEB's organizational structure is relatively flat with the Chief Financial Officer, the Chief Credit Officer, and the Chief Risk Officer (Compliance Officer), reporting directly to the President/Chief Executive Officer. Following is PBEB's proposed organizational structure.



Proposed Executive Officers

PBEB will be managed by a qualified Executive Management team of experienced bankers with extensive commercial banking experience and proven skills in credit analysis and administration, financial analysis and risk management, regulatory compliance and personnel management.

The Executive Management team includes the President/Chief Executive Officer, Chief Credit Officer, Chief Financial Officer, and Chief Risk Officer. These individuals will be experienced bankers with extensive relevant banking experience that qualifies them to carry out their duties and responsibilities as further outlined in the Management Training section below.

Director Training

Training will be scheduled at regular Board meetings, with appropriate subjects such as board governance, Board Secrecy Act, operational regulations, and related topics of importance to general board education. Training will be conducted by management and, when applicable by legal counsel, PBEB's accounting firm, auditors or other qualified professionals. Other training will be opportunistic and dependent upon the timing of appropriate training offered by trade associations, regulators and other groups.

Training sessions periodically presented by the FDIC, DFPI and other banking regulators are effective means for a Director to remain abreast of the current regulatory environment and to determine the red flags that should elevate a Director's concerns about the condition of PBEB. PBEB will encourage Directors to periodically attend these types of training sessions.

PBEB will establish a Director training program along the following outline.

Director Handbooks

The directors will be given the FDIC's Pocket Guide for Directors and the Comptroller of the Currency's The Director's Book, Detecting Red Flags in Board Reports, and Internal Controls. In addition, the Directors will be provided the Basics for Directors from the Kansas City Federal Reserve Bank and the Atlanta Federal Reserve's Director Guide to Credit. PBEB will conduct training sessions and require participation in third party programs that focus on the fiduciary duties of the directors, insider transactions, ethical principles and the responsibilities of Board committees.

Compliance Program

Training will be conducted to address bank compliance issues, such as the general laws and regulations impacting the industry, as well as discussions on the responsibilities of management, the Board, and Board committees. Legal counsel or appropriate consultants will be requested to provide Board and management training on the Bank Secrecy Act/AML laws and regulations, CRA Compliance, Fair Lending and Regulation O. Other training will emphasize the regulations concerning consumer protection, privacy rules, electronic fund transfers, truth-in-savings and fraud detection. Additional special training will highlight recently enacted changes to banking regulations and other issues of heightened concerns of the bank regulatory agencies.

Audits and Regulatory Examinations

Training will be scheduled on topics such as director responsibility for, participation in, and oversight over the external audit function, as well as the regulatory examination process. This will combine PBEB and insiders reporting requirements, insider trading, restrictions on transferability, beneficial ownership, securities law liabilities and the impact of recent regulatory changes.

Lending Regulations

Sessions will be scheduled to focus on lending regulations, including disclosure requirements and the avoidance of common violations. This program will cover consumer laws and analysis of credit risk, loan approval limits, and underwriting criteria.

Board Governance and Practices

Training will be conducted on the following practices: fiduciary duties and responsibilities, corporate governance and best practices, board deliberative and reporting processes, accurate and complete meeting recordation, minute preparation, review and preservation, and related matters. The collective experience on the board in terms of banking and other board experience will be an invaluable asset in the development and execution of training programs.

Bank Secrecy Act Training:

All PBEB personnel, including PBEB Directors, will be provided Bank Secrecy and customer identification training, ensuring the following minimum issues are addressed:

- The importance placed on on-going education, training and compliance with BSA.
- Employee accountability for ensuring BSA compliance.
- Comprehensive training, including the identification and treatment of business lines that carry a greater potential for BSA violations.
- Training personnel from all areas of PBEB.
- Training and training updates on a frequent basis.
- Explanation of PBEB's BSA/CIP policies, procedures and processes.
- Analysis of the different forms of money laundering and terrorist financing.
- Description of the penalties for noncompliance with internal policies and regulatory requirements.

Memberships / Seminars:

PBEB will consider becoming a member of the American Bankers Association (ABA), Western Bankers Association (WBA) and/or the California Community Banking Network (CCBN). To enhance director training, the Bank may use training material from other bank trade associations. Directors will be required to attend at least one seminar/educational program annually on relevant director training. The FDIC, ABA, WBA, CCBN, Bankers Compliance Group, law firms and independent bank service providers offer such training on a regular basis. The President/CEO or designee will be responsible for providing directors with information regarding upcoming training programs.

Management Training

All members of management will be required to continue ongoing training.

The Bank will be managed by a qualified Executive Management team of experienced bankers with extensive commercial banking experience and proven skills in credit analysis and administration, financial analysis and risk management, regulatory compliance, personnel management, and public service experience.

The Executive Management team includes the President and Chief Executive Officer, Chief Credit Officer, Chief Financial Officer, and Chief Risk Officer. These individuals will be experienced bankers with extensive relevant banking experience that qualifies them to carry out their duties and responsibilities.

Table 5. Proposed Management Team

NAME	POSITION	EXPERIENCE
Scott Waite	CEO	Experienced CEO of a LFI, or regional bank C-suite officer
To be confirmed at a later stage.	CCO	Formerly CCO of a LFI
To be confirmed at a later stage.	CFO	Formerly CFO of a LFI

NAME	POSITION	EXPERIENCE
To be confirmed at a later stage.	CRO	Former CRO or Head of Operations for LFI

Primary Duties of the Executive Officers

<u>Chief Executive Officer</u>

- Responsible for the day to day and overall management of the Bank to adhere to the Bank's Business Plan.
- Ensure the overall safety, soundness, and security of the Bank.
- Maintain the overall adequacy and soundness of the organization's financial structure, especially relating to operational issues.
- Participate in strategic planning and provide advice on the effective ways to meet the growth and earnings goals and objectives of the Bank.
- Provide overall leadership of the Management Officer Team, which consists of the Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, and Chief Risk Officer.
- Provide leadership in establishing current and long-range objectives, policies, and plans, subject to the approval of the Board.
- Coordinate the Board's responsibility to monitor adherence to the business plan, including review of performance to budget and an annual strategic review.
- Direct the overall marketing and business development activities of the Bank.
- Responsible, with the Chief Financial Officer, for overseeing the investment portfolio and controlling expense areas.
- Responsible, with the Chief Credit Officer, for overseeing the loan portfolio and credit quality.
- Coordinate communication throughout the organization.
- With the Chief Financial Officer, present and interpret the major financial reports for directors, BOC, and regulatory agencies.
- Act as the principal representative of the Bank with the press, major customers, community and industry associations, other businesses, and regulatory agencies.
- Meet with major customers, BOC, City and Municipalities, the financial community and the public.
- Keep abreast of changes in the market, legislative issues, and the current competitive practices with the financial industry.
- Directly supervise senior officers.
- Serve as a member of the Board and as a member of Board committees as determined.
- Provide coordinating role between directors and management for all Board and Board committee activities as well as any other director-related matters.
- Provide on-going employee training to business development and customer-facing staff to ensure that the customer banking experience meets the vision and expectation of the Bank, its directors and management.
- Participate in community and business-related organizations and attend major civic events to maintain visibility throughout the community and develop new customer relationships.
- Help establish company brand and image.
- Participate in the development of new products and services for each business line of the Bank.
- Identify target markets that will be receptive to the products and services offered by the Bank.

- Develop marketing campaigns and associated collateral materials. Track results of the marketing campaigns.
- Perform any other duties specified by the Board.

Chief Financial Officer

- Manage and ensure the quality of the Bank's financial and accounting functions, including:
    - General accounting and financial reporting, including call reports, financial (statements, and income tax reporting
    - Internal controls, risk management and in association with the CRO, MIS
    - Budgeting and forecasting
    - Asset-liability management (Chair the Asset-Liability Committee)
    - Treasury and investment management
    - Insurance procurement, alongside CRO
    - Prepare reports for monthly director meetings.
    - With the Chief Executive Officer, present and interpret the major financial reports for directors, the shareholders, and regulatory agencies.
    - Prepare material for the Bank's financial audit firm and respond to all audits.
- Recommend and prepare policies and procedures for proper financial control of the Bank.
- Manage the Finance and Accounting Department.
- Act as a liaison with correspondent banks, Federal Reserve Bank, other related depositories and outside transfer agents.
- Assist the CRO with the development and oversight of the operational risk management programs including facilities/bank security, monthly certifications, BSA oversight, disaster recovery planning and financial reporting requirements.
- Oversee backroom/centralized operations.
- Oversee the Bank's vendor management program.
- Develop personal banking relationships with a select group of customers including those requiring specialized and/or more complicated transactions.
- Liaison with IT, data, and item processing providers
- Oversee the Information Technology function of the Bank including liaison with third party vendors including Network and core processors in association with the Information Security Officer.
- Oversee IT management to maintain current IT programs including risk assessments, software changes, contingency planning, user access, incident response and information security program.
- Facilitate the completion of IT related risk assessments and Disaster Recovery testing.
- Liaise with outside IT support groups to monitor information security requirements and reports.
- Assist the CRO in the development, implementation and coordination of policies and procedures in the following areas: employment, compensation, benefits, group health insurance, workers' compensation, training, employee relations, employment related compliance, safety and other related functions.
- Interact with other senior officers on personnel policies and practices.
- Working closely with the CCO, review the allowance for loan and lease loss analysis to ensure compliance with currently promulgated GAAP.
- Provide a consulting and analytic resource on a wide variety of financial and planning matters, including the structuring of proposed transactions, product development, and business opportunities.

Chief Credit Officer

- Responsible for the overall quality and diversity of the loan portfolio.
- Develop and monitor loan policies and loan concentration limits.
- Make decisions on both administrative and operational matters pertaining to lending.
- Serve on the Loan Committee and act as a principal spokesperson for the lending function.
- Supervise the collection of non-performing and charged-off loans and manage OREO properties to disposition.
- Work closely with legal counsel to resolve litigation expeditiously while minimizing legal and collection expense.
- Prepare monthly and quarterly lending activity and portfolio condition reports for Board of Directors, committees, and regulatory agencies.
- Prepare the quarterly allowance for loan and lease loss analysis and work closely with the CFO to ensure compliance with currently promulgated GAAP.
- Responsible for ensuring that lending activities are in compliance with regulatory requirements.
- Oversee the credit staff and implement training programs on credit administration and the approval process.

Chief Risk Officer

- Conduct compliance responsibilities to ensure internal controls and compliance efforts are maintained. This will be accomplished by developing, recommending, and maintaining policies, procedures, and programs to reflect changes in law and regulations to minimize risk.
- Monitor and test the Bank's compliance program.
- Review all disclosures, mailers, and marketing material to ensure compliance.
- Coordinate BSA/AML/CIP/OFAC and regulatory compliance, audit and risk assessment matrix review and monitoring activities, including periodic review of departments.
- Maintain and oversee internal certification program including follow up to any corrective actions identified.
- Head the management level Enterprise Risk Management Committee.
- Present status of the audit plan, BSA/AML/CIP/OFAC, compliance management programs, internal/external risk assessments, and information security program to Bank management, Audit/Risk Committee and or Board on a regular basis.
- Monitor audit exceptions and recommendations and the resulting response and follow-up to verify required corrective action has been implemented.
- Attend training and maintain knowledge of procedures to ensure compliance with laws and regulations governing financial institutions, as they apply to BSA/AML/CIP/OFAC, regulatory compliance, audit, and enterprise risk management.
- Serve as the Bank's BSA Officer. Manage interfaces regarding the overall BSA/AML/CIP/OFAC program.
- Conduct staff training related to BSA/AML/CIP/OFAC and regulatory compliance programs.
- Oversee and monitor fair lending and CRA compliance.
- Manage the Bank's online compliance training program including program design and job function specific profiles.
- Manage and support the Bank Information Security Officer to ensure IT internal controls and compliance efforts are maintained.
- Manage the Bank's legal and reputational risk and all outside legal firms.
- With other members of Executive Management team, ensure corporate and director compliance with by-laws and state and federal laws and regulations.

- Oversee the Bank's insurance policies and programs.
- Represent the Bank as appropriate in its relationships with regulators and auditors
- Training personnel from all areas of the Bank.
- Training and training updates on a frequent basis.
- Explanation of the Bank's BSA/CIP policies, procedures, and processes.
- Analysis of the different forms of money laundering and terrorist financing.
- Description of the penalties for noncompliance with internal policies and regulatory requirements.

V. Records, Systems, and Controls

Control Systems

The Bank plans to place significant emphasis on risk mitigation as an integral component of the overall organizational culture. The emphasis will be critical to achieving the Bank's strategic goals and objectives. Accordingly, the Bank will develop an Enterprise Risk Management ("ERM") program that would be designed to identify, evaluate, treat, report on, and monitor priority risks. The ERM program efforts will be led by the Chief Risk Officer, with oversight by the Board of Directors and its Audit/Risk Committee. The Bank plans to manage its operations to attain a reasonable risk/return relationship, which will serve as a guideline for acceptable credit risks, market risks, and liquidity risks. The Bank will also focus on risk management in numerous other areas, including with respect to asset/liability management, regulatory compliance, legal, human resources, technology/operations, and financial reporting, and internal controls.

The Bank will use the services of third-party vendor to conduct accounting, internal control, and electronic processing functions. Prior to opening, the Bank will contract with a reliable accounting firm for financial audits and with qualified third parties for internal audit and electronic processing functions. The use of third-party vendors for such services is preferable, as most available systems are rated reliable, standardized, scalable, well-tested, up-to-date, and affordable.

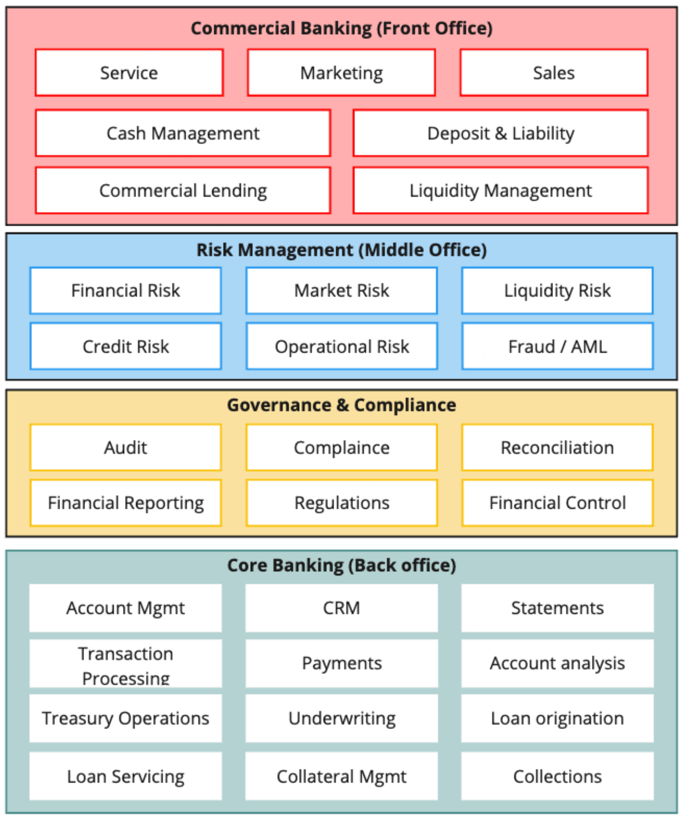
The Bank's Audit/Risk Committee will have the ultimate responsibility of interviewing, selecting, and recommending to the Board the outside accounting firm for the annual financial audits and tax work, as well as third-party service providers for the Bank's internal controls audits and services and the Bank's electronic processing systems. The selection of third-party vendors will be made in conformity with applicable regulations.

The Bank's selection process will include discussion on innovation, processes, and procedures that may minimize the impact of an emergency crisis situation like a global pandemic on Bank operations and maximize its ability to deliver its core banking services efficiently.

The Bank's Vendor Management policy will be reviewed, modified, and ratified by the Board on an annual basis. This policy will ensure that due diligence is conducted in advance of contracting with a vendor. This due diligence is necessary to minimize threats to the operations and reputation of the Bank.
The Audit/Risk Committee will evaluate proposals from various accounting firms specializing in auditing and reviewing commercial banks. Management and the Board will initially focus their discussions on

selecting a firm or firms to audit the Bank on an annual basis and provide any consulting or other guidance to management on internal controls related to the finance functions of the Bank. The Bank will maintain its accounting system in conformity with generally accepted accounting principles and with the Statements of Financial Accounting Standards. Reports for regulatory agencies will be prepared in accordance with the Regulatory Call Report Instructions.

The Bank's system structure is as follows:



Proper firewalls and security required to protect the integrity of the Bank's data maintained within the data processor's system and the data transmitted to the Bank is a critical factor in the selection of the electronic data processor. Effective computer access firewalls must be in place for all data accessible online and through use of any wireless access. The proper level of access security must be in place internally to ensure records are maintained reliably with verifiable points of entry that prevent fraud or misappropriation of funds by Bank staff or others. ds to contract with a third-party network services provider that specializes in providing such service.

The following depicts the Bank's proposed security structure.

The Bank will have the necessary software, systems, and training to ensure strict conformance with such regulatory issues as the Bank Secrecy and follow-up acts ("BSA"), Anti Money Laundering ("AML") and Know Your Customer ("KYC") compliance, privacy regulations and other customer compliance issues required by federal and California banking regulations.

The Bank's Audit/Risk Committee will have oversight of financial reporting and will ensure the integrity of the Bank's records, systems, and controls. The financial and business experience of the Audit/Risk Committee members responsible for the oversight of the Bank's records and controls should ensure that the Bank implements the accounting and internal control systems that provide the safety and soundness necessary for proper banking operations. The committee will also include a qualified outside director which will be identified during the regulatory review process.

Internal Audit

The Bank plans to use external auditors to perform the internal audit functions. There are a number of highly capable consultants and firms that specialize in bank internal controls, financial audit, loan review, compliance audit and other review activities. Members of senior management have used such auditors in prior banking activities with highly satisfactory results. The Bank will contract with the service providers, in conformity with a Board-approved vendor management policy.

The Bank will use a third-party loan reviewer to prepare independent reviews of the loan portfolio. The Audit/Risk Committee will contract to have a compliance review audit performed to ensure that the Bank's initial systems, policies, and procedures have been established in conformity with banking requirements. The third-party internal auditor will be provided independence of action and unhindered system review.

The third-party audits of the data processing system are typically conducted by the data processing company or by a consortium of the users of the data processing system. By using a proven financial data processing company, the review of the data security system will have received regular reviews by the regulators in the course of their review of other financial institutions using the same service provider.

The Bank will only contract with a proven data processing company which, as part of its due diligence verification, can demonstrate that their system and interfaces are safeguarded against unwarranted intrusions from any logical points of access. The Bank will ascertain that data intrusion audits have been conducted to verify the safety and integrity at public access points, including telephone or Internet access.

Compliance Management

Compliance Program

The Bank will implement a compliance program comprised of the following principal components:

- *Compliance Policies and Procedures*, designed in accordance with the related laws and regulations, as applicable to the Bank's operations. The policies and procedures will provide personnel with the information and methodology needed to perform a business transaction in conformity with applicable laws and regulations. The Audit/Risk Committee will be responsible for reviewing and updating these policies and procedures when business and regulatory environment changes or as necessary. The Bank may enlist third-party banking compliance experts to provide support in the regulatory compliance process. Use of such services will allow the Board and Executive Management to remain apprised on current and proposed changes in banking regulations and will assist them in ensuring safe and sound banking operations in strict compliance with banking regulations.

- *Compliance Training* of the Board, management, and staff. The Audit/Risk Committee will establish a regular training schedule for directors, management, and staff. Training will be conducted in-house and through external training programs or seminars. All of the proposed directors will attend training sessions to become knowledgeable in compliance and proper bank board governance. Bank regulators, correspondent banks, compliance analysts, and bank trade associations will be consulted for assistance with regulatory compliance issues. Management will periodically assess employees on their knowledge and comprehension of compliance regulations. The compliance training program will be updated with current, comprehensive and accurate information on products, services and business operations of the Bank, consumer protection laws and regulations, internal policies and procedures and emerging issues in the public domain.
- *Compliance monitoring* process will identify procedural or training weaknesses within the Bank to prevent any regulatory violation. This process will include a regular review of the following by the Audit/Risk Committee: product offerings' disclosures and calculations; document filing and retention procedures; posted notices, marketing literature, and advertising; state usury and consumer protection laws and regulations; third-party service provider operations; and internal compliance communication systems that provide updates and revisions of the applicable laws and regulations to management and staff. Changes to regulations or changes in the Bank's business operations, products, or services will trigger a review of existing compliance procedures. The Audit/Risk Committee will be directly involved in the planning, development, and implementation of the Bank's services and products. The annual performance evaluation process will ensure that each employee is following internal compliance policies and procedures. The compliance monitoring process will review issues, such as employee turnover, problems identified during past audits or examinations, regulations changes, new products, the opening of a new location, or other non-routine events.
- *Consumer Complaint Response.* The Bank will handle consumer complaints promptly. All written complaints from customers will be directed to the CRO and/or Compliance Officer for review, follow-up and remediation. The Board-level Audit/Risk Committee will require full disclosure from management of written consumer complaints, and the steps taken to resolve legitimate customer complaints. All complaints related to the Bank's performance in connection with the Community Reinvestment Act will be forwarded to the CRO and Compliance/CRA Officer for review and action. The CRA Officer will maintain in-coming and out-going communication on CRA issues. The Audit/Risk Committee will monitor the resolution of CRA complaints.

Compliance Audit

A compliance audit will be performed to provide an independent review of the Bank's compliance with consumer protection laws and regulations and adherence to internal policies and procedures. The compliance audit will also ensure that systems are in place to monitor and respond to future changes in the regulatory systems. The Audit/Risk Committee will determine the scope and the frequency of the various compliance audits. Audit reports and findings will be reported to the Audit/Risk Committee. The audit report will include:

- Scope of the audit;
- Deficiencies or modifications identified;

- Number of transactions sampled by category of product type; and
- Descriptions of, or suggestions for, corrective actions and time frames for correction.

As directed by the Board, senior management will provide prompt responses to the audit report and any deficiency findings. The Audit/Risk Committee will receive a copy of compliance audit reports and will oversee efforts to correct deficiencies and any required changes. The committee will also require management verification that the corrective actions are effective and in place. Work papers of the audit will be prepared, retained, and available for review upon request by the regulatory examiners.

Financial Audits

The Bank's annual audit process will be conducted in conformity with generally accepted accounting principles and with banking regulations. The Board and its Audit/Risk Committee ultimately hold the responsibility to ensure that an annual financial audit is conducted by an independent public accounting firm.

Once the Bank is in organization, the Audit/Risk Committee will evaluate proposals for financial audits from a number of accounting firms with banking specialization. The Audit/Risk Committee will select the accounting firm and will contract directly with that firm. The independent public accounting firm will report directly to the Audit/Risk Committee. It is the responsibility of the Board, with authority delegated to the Audit/Risk Committee, to ensure that the scope of the external audit program is appropriate for the Bank. An accurate and comprehensive audit of the Bank's financial condition requires the full and complete backing of the Audit/Risk Committee, the Board, and all levels of Bank management. All staff members of the Bank must comply fully with the requests made by the independent public accountant. Any staff member, who prevents the independent auditor from having complete access to financial records, will be subject to immediate termination.

To ensure independence throughout the audit function, the public accounting firm that audits the Bank's financial statements will not be permitted to provide, contemporaneously with the audit, the following services:

- Bookkeeping or other accounting record and financial statement services
- Financial information systems design and implementation
- Appraisal or valuation services, fairness opinions
- Actuarial services
- Internal audit outsourcing services
- Management and human resources functions
- Broker or dealer, investment adviser, or investment banking services; and
- Legal services and expert services unrelated to the audit.

Outsourcing

The Bank's staff will perform all procedures pertaining to financial, operational, and credit policies; the documentation, assessment, and approval of loans; reconciliation of financial statements and quantitative analytics; business and strategic planning, as well as other banking functions to direct the Bank’s operations in a safe, sound and lawful manner.

The basic banking services that will be outsourced include financial audits, internal audits (e.g., compliance, BSA, stress testing frameworks), external loan review validation (e.g. credit process and risk grading, CECL, note department), compliance review and outside testing, electronic data processing, and item processing.

The Bank will outsource its online banking system and automated customer telephonic systems.
Some of these functions may be included in the Bank’s core data processing software package. The overall network services function, which includes the monitoring of data security, the integrity of computer firewall, and the assessment of the system’s vulnerability to hacking and/or computer virus contamination will be functions expected to be outsourced. Testing results and audit recommendations given to third-party vendors will be reviewed by Bank personnel, and recaps of the findings will be reported to the Board. The use of third-party companies to perform these functions is commonplace in the banking industry, especially among LFIs. Nonetheless, the Bank will have on staff personnel who will have responsibility for monitoring and testing the Bank’s information technology process.

The Bank will consider engaging a third-party firm to provide HR, payroll, and benefit administration services, such that it can instantly obtain the economies of scale and more competitive benefits packages / costs that large group employers enjoy.

As the Bank grows in assets and earnings, some of these out-sourced activities may be brought in house, if their costs are justified. Data processing, item processing, and website design are functions that are well suited to be outsourced regardless of the size of the Bank. The Bank expects to provide its customers with advanced front-end and back-end support through arrangements with third party vendors that specialize in providing transactional processing and check clearing functionality to other financial institutions. This arrangement allows for a minimum of capital expenditures and permits growth to progress in an efficient manner. There are no current contracts with third-party vendors to conduct these functions. The proposed executive managers are aware of the service providers for these important functions and will solicit proposals, contract specifics, timelines, and bids for these services.

Prudent business planning and practices require that backup systems are developed to ensure that the mission-critical systems and functions provided by third party service providers would seamlessly continue despite unintended issues such as power outages or weather-related service disruptions. The third-party service providers should have redundant systems to support the continuance and integrity of the Bank’s core business activities and records.

The Bank will select audit companies that are current and well-regarded as experts with existing accounting methodologies and with appropriate banking regulations and requirements to serve the Bank well in reviewing operations and systems to determine that the Bank is functioning in a safe and sound manner and in full compliance with applicable regulations.

VI. Financial Management Plan

Capital and Earnings

Capital Goals

The Bank will be initially capitalized with $40 million which is sufficient to cover the projected pre-opening organizational expenses (salaries, consulting, legal, insurance, etc.) and capitalized assets (fixtures, furniture, equipment, systems, software, security deposits, etc.) and provide a solid foundation to support the growth contemplated by the business plan in a safe and sound manner.

The Bank plans to have sufficient initial capital to fully support the level of anticipated balance sheet growth. This will provide the footings for the Bank to achieve monthly profitable operations by the end of the third year and the de novo period, and thereafter, to generate earnings sufficient to support the future growth of the Bank while at all times maintaining a “well-capitalized” status.

In general, the following statements summarize the Bank’s capital management goals:

- Establish a core capital base through the Bank’s initial capitalization.
- Maintain the following minimum capital ratios through the de novo period:
  - Total Risk-Based Capital Ratio above 10.5%
  - Tier 1 Risk-Based Capital Ratio above 9.0%
  - Common Equity Tier 1 Risk-Based Capital Ratio above 9.0%
  - Tier 1 Leverage Ratio above 9.0%

The minimum ratios indicated above are the greater of: (1) “well capitalized” for purposes of Prompt Corrective Action; (2) where applicable, capital ratios that would result in a 2.5% capital conservation buffer pursuant to Capital Rules for FDIC Supervised Banks and Basel III standards; or, (3) in the case of the Tier 1 Risk-Based Capital Ratio, Common Equity Tier 1 Risk-Based Capital ratio and Tier 1 leverage ratio, a level commensurate with the Bank’s de novo status.
In addition, the Bank will maintain a minimum Tangible Shareholders’ Equity to Tangible Total Assets ratio of over 8% during the first three years of operation.

- We project that it will take the initial three years for the Bank to be profitable. The Bank is not designed to maximize profitability but to have a reasonable level of performance with the intent to help further build the economy, small businesses and residents within Municipalities. The Bank’s performance will increase the level of equity capital through the retention of earnings to support future growth.
- Control the degree of capital leverage through capital planning and the quarterly measurement, monitoring, and management of the economic value of equity taking into consideration the anticipation of the mismatch or “gap” between rate-sensitive assets and liabilities, excessive growth periods or relevant changes in the structure of the Bank. Continually monitor the volume, mix and maturities of assets and liabilities. Develop and abide by specific guidelines for controlling interest rate risk and market risk.
- Develop and implement programs and strategies to increase revenues and control expenses.

- Ensure the safety and soundness of the Bank and the insured deposits.

Earnings

The following table summarizes the expected earnings goals of the Bank during the first three years of operation.

Public Bank East Bay, Proposed. Profitability Measurements

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Return on Average Assets	(2.96%)	(0.47)%	0.66%
Return on Average Equity	(5.52%)	(1.067%)	3.41%
Net Interest Income/Average Assets	4.66%	4.38%	4.20%
Non-Interest Income/Average Assets	0.05%	0.03%	0.02%
Non-Interest Expenses/Average Assets	6.39%	4.01%	2.97%
Net Interest Margin	4.93%	4.52%	4.20%
Efficiency Ratio	135.64%	90.91%	70.23%

The principal goals of the Bank are to0 establish the infrastructure that supports a safe, sound, and well-capitalized banking operation and to grow the Bank's business segments.

Upon opening, and upon receipt of the necessary regulatory approvals, the Bank will expense the non-capitalized pre-opening and other accrued organizational costs. These include costs related to regulatory filings, legal, staff, consulting and other non-capitalized expenses associated with the organizing and opening of the Bank. The capitalized pre-opening expenses such as purchase of furniture and equipment, tenant improvements to the leased premises, system design and implementation, software to support operations, and other capital purchases, will be depreciated based upon appropriate estimates of economic useful lives and using the straight-line method of depreciation consistent with generally accepted accounting principles.

It is anticipated that the Bank will reach monthly profitability at the end of its third year of operations. Prior to reaching monthly profitability as the Bank is developing and growing earning assets the volume of earning assets and the corresponding net interest income and other revenues will not be sufficient to cover overhead costs, including the up-front costs of putting in place the appropriate infrastructure (people, premises, and systems) that are required to support its operations in a safe and sound manner as contemplated in its business plan. Thereafter, it is expected that the Bank would generate consistently increasing profits to support the contemplated balance sheet growth.

Business generation, services offered, and expense control will be key to reaching the Bank's earning goals. The Bank is expected to work closely with LFIs to build market share and generate interest income by providing the core products to its targeted clients. The Bank will use its experienced staff effectively to achieve its earning goals, hiring bankers and support staff who have implemented plans similar to the Bank's in its target market area.

The Bank will proactively manage expenses to operate within budget.

Capital Raising

Following the receipt of approval to incorporate from the DFPI and upon regulatory approval of the Bank's capital plan, the Municipalities will capitalize the Bank. This initial capital combined with the Bank's retained earnings will be sufficient to ensure compliance with regulatory capital requirements.

Regulatory Capital Requirements

Based on the financial model, the projected level of initial capital is deemed sufficient to support the Bank's growth during its de novo period, resulting in capital ratios well above the minimum requirements for well-capitalized institutions as well as the stricter capital requirements of a de novo institution, including Tier 1 Leverage Ratio in excess of 9.0 percent.

Public Bank East Bay, Proposed. Projected Capital Levels (in thousands).

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Shareholders' Equity	$36,920	$36,312	$37,571
Tier 1 Leverage Ratio (Minimum 9.0% de novo for first 3 years)	40.06%	23.975%	17,67%
Common Equity Tier 1 Risk-Based Capital Ratio (Minimum 9.0% de novo for first 3 years)	40.06%	23.97%	17.67%
Tier 1 Risk-Based Capital Ratio (Minimum 9.0% de novo for first 3 years)	40.06%	23.97%	17.67%
Total Risk-Based Capital Ratio (Minimum 10.5%)	99.95%	44.76%	27.86%
Tangible Equity/Tangible Assets (Minimum 8.0% DFPI guideline)	38.05%	23.21%	17.25%

Capital Adequacy

The Bank's proposed capital structure is adequate for the projected internal and external risks, as well as the planned fixed assets expenditures, technology, organizational, and other expenses needed to grow the Bank to approximately $207 million in assets by the end of the third year of operations. The planned initial capitalization will also be sufficient to have an effect on the credit needs of the Bank's market, which are too large for any one institution to cover. The capital structure will enable the Bank to accommodate credits to one borrower of up to a range of approximately $3 million (unsecured) to $7.5 million (secured) which should be adequate for a majority of the Bank's customers.

The Bank will continually measure and assess trends in risks that may adversely impact capital levels. It is the Bank's goal to address any emerging risks on a proactive and comprehensive basis, in order to avoid rapid deterioration in asset quality, profitability, and overall operations, and ultimately maintain targeted capital levels.

There are no unusual off-balance sheet activities contemplated by the Bank. In general, off-balance sheet activities contemplated by the Bank will be limited to unfunded loan commitments typically associated with commercial lines of credit and, to a lesser extent, standby letters of credit.

Debt Service

The business plan does not anticipate that the Bank will be owned by a holding company or that there will be debt issued to capitalize the institution. Consequently, there are no anticipated debt service requirements.

Options, Warrants

The business plan does not anticipate the use of options, warrants, and/or other benefits associated with the Bank's capital.

Dividend Policy

No dividends are anticipated.

Liquidity and Funds Management

Identifying and Measuring Liquidity Risk

The Bank will maintain liquidity consistent with safe and sound operations and within regulatory definitions including full compliance with the joint agency policy statement on liquidity contingency planning. The Bank's Board of Directors will have the ultimate responsibility for liquidity risk management. The Board is responsible for understanding the nature and level of the Bank's liquidity risk, establishing the tolerance of such risk, and approving policies to ensure liquidity is preserved.

The Bank will measure, monitor, and control liquidity, asset and liability volume and composition, loan and deposit pricing, interest rate risk, market pricing risk, and capital adequacy. The Board will review the Bank's liquidity position, as well as the internal and external factors that impact liquidity, at least quarterly at a regularly scheduled Board meeting and through the presentation of the Bank's quarterly financial performance presentations. Part of the Board's oversight will be the assessment of contingency plans for funding.

The Board will establish minimum requirements and guidelines for liquidity management in order to ensure that the Bank maintains the funds necessary to meet its cash needs and financial obligations on a timely basis, at a reasonable cost, and with a minimum of financial loss, consistent with sound practices to strengthen operational resilience. Specifically, the Bank must be able to meet immediate cash withdrawal requirements, fund customers' lines and letters of credit, and fulfill short-term credit needs. Management will ensure that primary and backup sources of liquidity will be available for Bank operations.

The key factors that determine the Bank's liquidity are reliability and stability of deposits; the maturity and structure of investment portfolio; the maturity and structure of loan portfolio; and the potential for unexpected loan demand and/or deposit volatility from customers. A significant portion of assets will be loans that re-price with changes in market rates or other reference rates that the Bank may establish from time to time. The liability side of the balance sheet will be composed principally of deposits concentrated in money market accounts, checking accounts, and certificates of deposit maturing within a year. The Bank will manage its investment portfolio in an effort to reduce the mismatch between the maturities or re-pricing of assets and liabilities. The Bank may use borrowings from the Federal Home Loan Bank and will structure the maturity of these borrowings to balance the re-pricing of its loan portfolio.

Liquidity will be managed to minimize the need for high cost and volatile funding, especially during adverse business conditions. In evaluating liquidity, the following will be considered:

- Present and future earnings capacity
- Cash flow projections
- Current liquidity position

- Future funding needs, loan demands, pay-offs and sales
- Anticipated investment transactions
- Deposit maturities and forecast trends and seasonality of customer deposits
- Other sources of funds
- Borrowing capacity with state funds, FHLB (i.e., both securities and loan backed), and correspondent banks.

The Board will establish ranges for liquidity ratios and review these ratios at its committee meetings. At a minimum, the following liquidity indicators will be reviewed:

- Liquidity
- Loans/Deposits
- Funding Concentrations
- Brokered Deposits
- Volatile Liability Dependency
- Borrowing Capacity with FHLB

The following table presents the Bank's projected liquidity ratios during the first three years of operation.

Table 8. Public Bank East Bay, Proposed. Liquidity Ratios.

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Liquidity Ratios	47.32%	28.79%	21.25%

Monitoring and Controlling Liquidity Risk

The Board will establish procedures to monitor and control liquidity risk. The Board will provide policy guidelines regarding the investment portfolio, loan sale strategies (as appropriate) and deposit generation.

Liquidity management will ensure sufficient cash to support daily banking operations, fund loans and repay maturing deposits. Management will prepare and distribute to the Board regular reports designed to monitor liquidity.

The following are the primary reports to be presented to the Board regarding liquidity:

- ***Liquidity risk report*** shows level and trend of liquidity risk using various measures.
- ***Funds provider report*** lists concentration and source of large amounts of funding.
- ***Funds flow analysis*** provides balance sheet trends and weighs the liquidity risks of each major category.
- ***Cash flow or funding gap report*** identifies over various time frames when funds will be needed for asset-related commitments, deposit withdrawals and borrowing redemptions.

- If needed, a ***contingency funding plan*** incorporates the funding gap report to forecast funding requirements and sources under varying assumptions and responses to included worse case outcomes involving run-off or excessive asset growth.

The Board will be watchful for the following trouble signs involving liquidity:

- A liquidity measure that falls outside of the limit established by the Board.
- A significant increase in the risk profile associated with a sector of the bank or product line, such as a decline in asset quality or an unforeseen decline in earnings performance.
- Spike in asset growth funded by wholesale or potentially volatile liabilities.
- Any undue concentrations in a category of assets or liabilities.
- Above market funding costs, which may be reflective of market concerns about the Bank's risk profile.
- Real or perceived negative publicity regarding the Bank, including actual or potential downgrades of the Bank's credit rating (including without limitation, publicity concerning the Bank's clients that might impact liquidity through specific reserves).
- Increasing spread (relative to competition) paid on deposits and rising requests from depositors for the early withdrawal of funds.
- An elimination of or a decrease in the Bank's credit lines from its correspondent banks and an associated increased use of brokered or other volatile funds.
- Increased collateral requirements or demand for collateral to back the Bank's credit exposure.

Contingent funding sources will provide a safety net against unforeseen illiquidity. The primary liquidity contingency plan will be the arrangements for backup sources of funding. These funding arrangements will be made, motivated by an abundance of caution, in advance of an actual need to obtain borrowings. Borrowing facilities will be sought by arranging back-up lines through correspondent banks through the pledging of excess Federal funds and marketable securities. The Bank will become a member of the Federal Home Loan Bank System for the opportunity to obtain advances secured by a blanket lien on the loan portfolio; however, terms for such FHLB advances are less favorable until the Bank has achieved profitability. Consequently, during its initial period of operations, the Bank will focus upon deposit generation to provide liquidity.

Borrowings

The business plan does not project the use of borrowings to support the capital structure but the Bank could issue notes to municipalities and other parties including foundations which will not be a deposit but will be a note that can be used to fund loans. The Bank is expected to have sufficient liquidity during the first three years of operation. However, maintaining backup borrowing capability is a prudent operating strategy, providing the Bank with a safety net for unplanned illiquidity. The Bank will establish access to additional borrowing sources before significant funding needs arise and will establish contingency plans for outside funding and liquidity. Sources of funding will include arrangements with correspondent banks, other community banks, and advances allowed as a member within the Federal Home Loan Bank system.

The Board will review and approve borrowing arrangements.

Investment Securities

Liquidity is planned to be invested in a combination of sources including Fed funds, maturity laddered U.S. Treasury bills and notes, U.S. Government agency debt and MBS securities, comparable maturity commercial bank certificates of deposit, investment grade corporate debt securities and other liquid securities that are in accordance with regulatory requirements and with PBEB's mission. In general, the guiding principle for the investment portfolio will be the preservation of principal and the adequacy of liquidity. The Bank does not intend to chase yield by extending the duration of its investment portfolio or by taking on excessive credit risk on its investments. The securities in the liquidity portfolio will be selected to minimize risk, including interest rate, market pricing, and credit risk. Deviation from the Investment Policy will require explicit Board approval.

The Bank will comply with regulatory requirements relating to permissible investments to be held in the securities portfolio.

Permissible investments are defined as:

- Direct obligations of the U.S. Government;
- Obligations of Federal Agencies fully guaranteed or sponsored by the U.S. Government, which may include: notes and similar instruments, mortgage backed securities, and SBA guaranteed securities;
- Investment-grade municipal securities;
- Investment-grade corporate debt securities;
- Certificates of deposit fully insured by the FDIC;
- Banker's acceptances from an issuing bank with an acceptable credit rating. The acceptances must be readily marketable, with the maturity not to exceed 365 days. Investment in acceptance of one bank is limited to the maximum allowable by banking regulations;
- Federal Funds –placed with banks approved by the Board; and
- Other earning assets, including securities purchased under agreement to resell and commercial paper.

The following table depicts the projected investment portfolio composition.

Public Bank East Bay, Proposed. Investment of Excess Liquidity (in thousands).

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Cash and Due From	$1,798	$2,2773	$1,621
Interest-Bearing from FRB	$25,871	$18,775	$15,910
U.S. Agencies	$24,500	$36,500	$47,500
Agency MBS	-	-	-
Time Deposits/Term Advances with Banks	$5,000	$10,000	$15,000
Fed Funds	$0	$0	$0
Total	**$57,169**	**$67,552**	**$80,031**

Sensitivity to Market Risk

Interest Rate Risk Strategies

Management will manage the Bank's interest rate risk in accordance with its Asset Liability and Funds Management policy. The Bank will generally strive to manage towards a neutral asset-liability position, while continuously monitoring its asset/liability pricing and composition relative to trends in the market and competitors.

The bank will initially use a third-party asset / liability management service provider to perform the required testing and financial modeling. The expectation is that this function will be brought in house and performed under the direction of the Chief Financial Officer.

The primary objectives of the Bank's interest rate risk management process will be to minimize the reductions in both net interest income and the economic value of the Bank's equity resulting from changes in future interest rates. The Bank will minimize interest rate and market risk by managing the re-pricing terms of its assets and liabilities. The preferred structure of the balance sheet will be assets and liabilities that re-price with market rates at certain intervals, typically based upon a spread over the prime rate, the Bank's reference rate, the SOFR and the ability to reprice spread to achieve an equivalent total rate at substitution, or other market rate. The Bank will continually assess ways to improve any re-pricing mismatch between fixed rate assets and floating-rate liabilities.

Varying interest rate and yield curve assumptions will be used to determine the impacts on earnings and capital from differing interest rate environments. Such deviations will be maintained within the limits specified in the interest rate risk and related sections of the Bank's Asset/Liability and Funds Management Policy using the measurement procedures, risk reduction activities, and controls specified in that policy.

Identifying and Measuring Interest Rate Risk

The Bank will employ standard techniques and metrics to identify interest rate risk, especially in assessing re-pricing or maturity mismatch risk, basis risk, yield curve risk, and option risk. Key assumptions include but are not limited to expected future interest rates, prepayment rates of loans or securities, deposit decay and rollover rates; draws on unfunded commitments, and collateral advance rates for secured financings. All assumptions, estimates and projections used to measure interest rate risk will be documented and reviewed by the Bank Board if market conditions, Bank products, or other material conditions change.

At least quarterly, the Bank Board will consider an analysis of the impact of a plus and minus 100, 200, 300, and 400 basis points change in interest rate on the following:

- Net interest income and the variation caused by changing rate and yield curve relationships on the difference between interest income and interest expense of the Bank.
- Economic value of equity and other related changes in the present value of future cash flows due to movements in interest rates.

The analysis will include the impact on the volume and the demand for products based on the changes in the yield curve as well as the level of rates, as well as variations in market value, particularly of investment securities, due to changes in interest rates.

The following reports would be received and reviewed by Asset/Liability Committee:

- Reports reflecting net interest income sensitivity
- Reports reflecting economic value of equity sensitivity
- Reports reflecting compliance with interest rate risk policy limits and any interest rate risk policy violations

The Bank will use a proven third-party vendor model to conduct interest rate risk management and analysis. On an annual basis the Interest Rate Risk model will be back-tested for reasonableness, comparing the 12-month model forecast to the Bank's actual results incorporating the actual change in rates. Furthermore, on an annual basis, the internal auditor, or other qualified third-party vendor, will conduct a review of the IRR program to include:

- Compliance with policies and risk limits;
- Accuracy and completeness of data inputs into the measurement systems;
- Documentation and reasonableness of assumptions; and
- Comparison of prior model output compared to actual results.

Sensitivity to Interest Rates

The Bank will seek to minimize adverse effects from changes in interest rates by prudently matching asset and liability re-pricings and maturities, in order to minimize the negative impact to earnings from interest rate changes and to operate within Board approved policy limits.

The Board will establish ratios for risk tolerance and sensitivity to interest rate changes. Operating ranges will be established for the primary ratios of interest rate risk.

Hedging

The Bank does not intend to invest in hedge instruments, such as futures, options, interest rate swaps, or other derivative investments. Any potential use of hedging instruments will be as an interest rate risk management tool and not as an income-generating instrument and will need to be approved by the Board.

Credit Risk

Identifying and Measuring Credit Risk

The Bank will identify and measure credit risk through a risk rating system that will regularly assess the risk profile of the loan portfolio and will provide the Board and management with information on the quality, trends and potential for problems within the loan portfolio. The risk rating will be used in determining the adequacy of the loan loss reserve as well as loan pricing.

Having a well-managed Credit Policy and Guidelines that remain up to date and reflects current Bank and market conditions is key to ensuring that Management are able to successfully execute its duties in accordance with the Bank's risk appetite and mission. To ensure policies remain updated, the Bank's Credit Risk Management Committee will review and recommend modifications to the Credit Policy and Guidelines to the Board of Directors for approval on an ongoing basis but no less frequently than annually to reflect current economic conditions, the Bank's financial position, changes in loan demand and the competitive environment, and changes to laws and regulations.

The Board of Directors or its delegated committee(s) is charged with:

- Approving and periodically reviewing credit policies and guidelines of the Bank including CECL allocations, OREO, review and delegate loan approval authorities, review and approval of Credit Policy at least annually, and other salient credit matters.
- Appointing credit, risk, and review committees, as necessary, to carry out the credit process for the Bank and meet its regulatory requirements.

Among other duties, the Board or an appointed committee is charged with:

- Establishing the credit risk tolerances and ensuring that an adequate reserve has been provided against potential losses in the credit portfolio.
- Requiring that management report on the handling of credit risk and their compliance with Board decisions regarding acceptable levels of risk.
- Reviewing and recommending changes to Credit Policies and Procedures.
- Reviewing and approving the delegation of loan approval authorities, as appropriate, if such approval is consistent with the Credit Policy and deemed a non-material change by the Committee.
- Requiring that management report on the monitoring of loan officer compliance with lending policies.
- Verifying that management follows proper procedures to recognize adverse trends, identify problems in the loan portfolio and maintain an adequate allowance for loan and lease losses.
- Reviewing and recommending for full Board approval the Bank's ALLL methodology and no less than quarterly, reviewing Management's recommendation of the Bank's ALLL.
- Meeting as needed to review loan requests and make credit decisions on loans requiring Board Approval.

The CCO will be charged by the Board with overseeing and maintaining the credit risk of the Bank, including the quality, safety and soundness of the Bank's credit portfolio as well as:

- Approving or declining loans within authorized limits.
- Overseeing the Credit Administration function including loan underwriting and portfolio management.
- Delegating loan approval authorities to those within the Bank in accordance with the approved credit policy.
- Assuring the quality and completeness of loan documentation and management information reporting of the loan portfolio.
- Initiating and administering the Bank's credit policies, guidelines, and procedures.
- Evaluating and reporting portfolio risk and adequacy of the Allowance of Loan and Lease Losses.

- Working in conjunction with the Chief Risk Officer to provide assurance that all lending related compliance and CRA procedures meet regulatory standards.
- Overseeing credit risk management and Special Assets.
- Approval of major borrower overdrafts and analyzing of past due loans.

The Bank will establish a Credit Risk Management Committee ("CRMC") that is tasked with monitoring, reviewing, and making policy and guidelines recommendations to better manage credit risk and governance within the Bank. The CRMC shall meet quarterly, or more frequently as needed, to monitor and administer the Bank's credit framework, including:

- Review of policy and guidelines,
- Monitoring of the quality and condition of the loan portfolio including policy and guideline exceptions and portfolio concentrations,
- Review of risk rating migrations including delinquencies, non-accruals, and charge offs,
- Review of loans downgraded within twelve months of origination,
- Discussion of market and industry trends and regulatory changes,
- Recommendation and vetting of new loan products or changes to underwriting or product criteria for existing loan products.

The Bank will emphasize prudent and disciplined underwriting while implementing a flexible and responsive decision-making process. The Bank's underwriting standards will include approval requirements that vary depending on the size and type of loan and the Bank's aggregate exposure to the borrower.

Credit Administration is responsible for assigning a loan risk rating to their loans, both at inception and as changing circumstances and updated financial reporting warrant a review and potential update of the risk grade. The review by Credit Administration is part of the Bank's portfolio management function and is independent of Relationship Managers to ensure the rating remains objective.

The loan risk rating will be indicated on each loan write-up and also on the documentation checklist. No loan will be boarded without having a grade assigned. Changes to loan grades already on the system may only be entered by Loan Servicing, as documented in a form that is managed by the CCO and approved by those with the appropriate delegated authority.

The Bank uses Loan Risk Ratings numbered 1 through 10 as defined below. Ratings 1 through 6 are Pass grades with 6 being Pass-Watch. Ratings 7 through 10 implement the interagency definitions of Special Mention (7), Substandard (8), Doubtful (9), and Loss (10).

The CCO reviews the assigned risk rating and is responsible for confirming or changing the grade. The CCO has final risk rating authority. Periodic independent credit reviews will be conducted by qualified loan review consultants, which will be engaged by the Audit and Risk Committee, to review risk ratings and report the finding to management and the Board of Directors.

In addition to individual loan ratings, the Bank will ensure that a risk management framework is in place to maintain a diversified portfolio. Diversification pertains to loan products, industry, geographic location and borrowing relationship/sponsor risk. The Bank will ensure that inherent risks associated with concentrations of credit are monitored and controlled. Although some concentrations of credit are inevitable, the effective management of concentrations of credit will help to avoid the risk of significant loss due to adverse economic or other negative effects on industries or related borrowers, as well as assist the Bank in achieving a broader diversification in its loan portfolio.

Loan Review Program

The Bank's loan review program will include a combination of independent loan review and internal reviews.

The specific goals of the credit review are to:

- Identify actual and potential loan problems;
- Ensure the collateral position has been perfected and there is sufficient collateral;
- Identify organizational weaknesses and estimate the risk posed by such problems as well as to potential and actual concentrations of credit;
- Provide an objective assessment of asset quality to management and the Board of Directors;
- Test the accuracy of assigned risk ratings;
- Identify weak products or underwriting practices;
- Provide accurate risk ratings that can be used to derive an adequate and accurate ALLL;
- Ensure that self-dealing does not exist;
- Determine compliance with laws, regulations, regulatory guidance, and Bank lending policy; and
- Ensure that proper financial information is gathered, and that adequate analysis is performed.

Prompt identification of problem loans is necessary to increase the likelihood of full collection of principal and interest.

To systematically review credits for identification of problem loans and for appropriate risk rating, the Bank will use a variety of portfolio monitoring tools including:

- Quarterly trend analysis and portfolio reviews to discuss credits within a scope established by the CCO, including the results of financial information received, including the evaluation of covenant compliance and an assessment of the borrower's repayment capacity.
- The Bank may use third-party credit reporting to track borrower business and guarantor FICO scores as a method of determining any business or guarantor decline in performance that may warrant a change in risk rating.
- If a credit appears on the Bank's delinquency report, Management should investigate the cause to assess any change in risk rating, if appropriate.
- If the Bank receives an evaluation of collateral value (e.g. audits, inspections, appraisals), then that officer should determine the impact of the new value on the risk rating of the credit and re-grade accordingly.

As part of the effective management of the Bank's portfolio as well as to mitigate any potential losses to the Bank, problem loans within a scope defined by the CCO based on aggregate exposure, will be subject to additional quarterly reporting and monitoring.

On a periodic basis, the Bank will engage an external qualified resource to review the quality of the loan portfolio and to ensure that management and staff are adhering to loan policies described in this document and general prudent risk management practices. The frequency and scope of the review may change as the portfolio expands, but it is anticipated to occur semi-annually. The scope is subject to input by the examiner and the Audit/Risk Committee, but generally will include all classified loans and watch loans, and include as much of the portfolio as reasonable as determined by the CCO and the Loan and Audit/Risk Committees, focusing first on the largest credit relationships and proceeding down in size. This review is to remain independent from the Bank's operation and will be coordinated and overseen by the Audit/Risk Committee. Findings and recommendations will be addressed by the CCO and presented to the Audit/Risk Committee and the Board in a timely manner.

Allowance for Loan and Lease Losses

It is the policy of the Bank to maintain at all times a reserve for potential loan losses that is adequate to absorb all estimated losses in the Bank's loan portfolio. The existence of an effective loan review system that identifies credit quality problems in an accurate and timely manner is key to the effectiveness of this policy. The loan review system will respond to internal and external factors affecting the Bank's credit risk and will ensure the timely charge-off of loans, or portions of loans, for which a loss has been confirmed.

The Bank will establish a systematic methodology for determining the Allowance for Loan and Lease Losses (ALLL) based on both actual, historical loss data as well as qualitative considerations that may affect the loan portfolio and in conformity with CECL. The Bank will document the supporting rationale employed in estimating the appropriate level of the ALLL, including the analysis of all significant factors affecting the collectability of the portfolio. It is the policy of the Bank to maintain an ALLL estimation process that is sound, well documented and based on reliable information and be of such quality that regulators, auditors, investors and directors may rely on it.

It is noted that the de novo nature of the Bank precludes use of historical loss experience during the early stages of its existence, and so the methodology described below will be modified as necessary, and the use of peer group ALLL practices may be more prevalent in establishing an appropriate ALLL.

Specifically, the ALLL methodology will be designed to:

- Include a detailed analysis of the loan portfolio on a regular basis;
- Consider all loans (whether on an individual or group basis);
- Identify loans to be evaluated for impairment on an individual basis under SFAS No. 114 and segment the remainder of the portfolio into groups of loans with similar risk characteristics for evaluation and analysis under SFAS No. 5;
- Consider all known relevant internal and external factors that may affect loan collection;
- Be applied consistently but, when appropriate, be modified for new factors affecting collectability;
- Consider the particular risks inherent in different kinds of lending;
- Consider current collateral values (less costs to sell), where applicable;
- Require that competent and well-trained personnel perform analysis, estimates, reviews and other loan loss allowance methodology functions;
- Be based on current and reliable data;
- Be well documented, in writing, with clear explanations of the supporting analysis and rationale; and
- Include a systematic and logical method to consolidate the loss estimate and ensure the loan loss balance in accordance with GAAP.

Banks may segment their loan and lease portfolios into as many components as practical. Each component would normally have similar characteristics, such as risk classification, past due status, type of loan, industry, or collateral. Segmentation is intended to allow for the estimation of inherent loss in pools of homogeneous loans based on historical losses.

Management will periodically conduct a review of available risk grading and loan loss information by searching charge-off ledgers, board reports, Reports of Examination, etc. This search is intended to identify similar pools of loans that could be isolated and tracked to estimate inherent loan losses.

For larger "Substandard" loans and all "Doubtful" loans, an individual analysis of each loan is performed to estimate the inherent loss based on existing facts, conditions, and values. The Bank will not reserve for probable losses of accrued interest, due to its policy of reversing the interest due and uncollected when a loan is placed on non-accrual.

The CFO, CRO, and CCO will report to the Board of Directors on a quarterly basis. The quarterly review will include an analysis of portfolio trends, concentrations in the loan portfolio, and an evaluation of the local economy and other factors that could have an influence on the adequacy of the reserve. Upon such review, the Board of Directors will approve increases or decreases in the Bank's provision for loan losses in order to provide for an adequate balance in the loan loss reserve.

The review will take into account the following factors:

- An evaluation of the estimated future losses in all significant problem loans.
- Levels of, and trends in, delinquencies and non-accruals.
- The results of any independent review of loan portfolio quality.
- Trends in portfolio volume and terms of loans.
- Effects of any changes in lending policies and procedures, including those for underwriting, collection, charge-off and recovery.
- Experience, ability and depth of lending management and staff.
- National and local economic conditions and trends.

There is no fixed period of time that should be used in determining a historical average. During periods of economic stability, a relatively long period may be appropriate. However, during periods of significant economic expansion or contraction, the Bank may use a shorter historical time period in order to more accurately estimate the Bank’s inherent losses in the current economic climate. Although historical loss experience provides a good starting point, the historical loss rate must be adjusted for current conditions and recent trends when estimating future losses. Management will consider the following qualitative factors when adjusting historical loss averages:

- Changes in the experience, ability and depth of lending personnel.
- Changes in practice relating to underwriting, collection and the loan review system.
- Changes in national, state and local economic conditions.
- Changes in the nature of the portfolio and levels of concentrations.
- Changes in levels of classified loans.
- Changes in levels of delinquencies and non-accruals.

The Bank will reserve for unfunded commitments. Management will periodically analyze the actual usage of unfunded commitments for various pools of loans.

Problem Loan Reports on, at minimum, Pass-Watch, Special Mention, Substandard and Doubtful credits will be reviewed by Credit Administration on a quarterly basis. As part of this process, the CCO will review the larger classified loans for possible specific allocations. Any specific allocation will be based on either a collateral valuation or an abnormal probability of loss in accordance with the Bank's impairment guidelines. The final level for the ALLL will be a combination of the Bank's general reserve and specific allocations.

The Bank will follow ASC 450-20 (formerly FAS 5) and ASC 310-10 (formerly FAS 114) and FDIC rules and regulations which relate to the impaired status of certain loans, leases and other assets. Impaired loans may be measured, either individually or in aggregate with other loans with similar risk characteristics, using one of three methods:

- The present value of expected future cash flows discounted at the loan's effective interest rate.
- The loan's observable market price.
- The fair value of the collateral, if the loan is collateral dependent.

All impaired loans are to be reported at least quarterly to the Board.

Loans are to be charged off when deemed to be un-collectible and/or when continuing to carry them as an asset of the Bank is no longer considered prudent. This will include instances where loss exposure exists due to an inability to collect, protracted repayment, or lack of collateral coverage. Charge-offs are to be taken immediately upon the occurrence of one or more of the following events:

- A classification of “Loss” by internal or external loan review or by regulatory examiners.
- When the loan is considered a statutory bad debt in that principal or interest is past due for 180 days or more, unless the loan is "well secured" and "in the process of collection." Consumer installment loans shall be charged off when delinquent 120 days or more.
- The filing by the borrower of a voluntary or involuntary petition in bankruptcy of 90-day delinquent, unless the loan is well secured and in the process of collection.

Credit Administration shall present a report quarterly to the Board of Directors or its delegated committee(s) concerning the adequacy of the ALLL. The CRO and CFO shall maintain an ALLL Adequacy File. This file will contain the data and analysis that supports the recommended ALLL balance. At a minimum, this file will contain:

- The calculations used to estimate the required ALLL balance;
- The summary of criticized loans;
- The analysis that supports the pool allocations;
- Qualitative factor adjustment worksheets;
- A narrative to support each qualitative factor adjustment worksheet; and
- Trend analysis for delinquencies and non-accrual loans.

In analyzing the appropriate allowance levels, the Bank will evaluate the inherent risks within the loan portfolio, taking into account that multifamily loans are expected to comprise a sizeable portion of the loan portfolio – estimated at $40.7 million, $92.3 million and $151.8 million of total loans by the end of years 1, 2, and 3, respectively.

Below is the projected Provision and ALLL for the first three years of operation.

Public Bank East Bay, Proposed. Provision for Loan Losses and Loan Loss Allowance (in thousands).

	For the 12 Month Period Ending		
	1st Year	2nd Year	3rd Year
Beginning loan loss allowance	$0	$900	$2,026
Provision for loan losses	$900	$1,126	$1,124
Less charge offs	-	-	-
Ending loan loss analysis	$900	$2,026	$3,150
Total loans	$39,112	$87,984	$136,622
Allowance/total loans (%)	2.25%	2.25%	2.25%

VII. Monitoring and Revising the Plan

Board Monitoring

Under the guidance of the directors, the CEO, CCO and CFO will establish a comprehensive budgeting and variance reporting process to monitor operations and to ensure that the Bank achieves its growth, risk management, and profitability goals. The Executive Management team will ensure that the planning process is comprehensive in order to convey an accurate view of the current condition of the Bank, its likely growth, and its sensitivity to changes in market, financial and economic conditions.

The Bank's strategic planning and budgeting process will take into account external economic fluctuations, market conditions, competitive environment and internal capabilities. The budget will incorporate detailed projections of balance sheet and income statement items, including a forecast of the earnings and costs associated with various products and services, as well as administrative expenses. Detailed income and cost budgets will be prepared by month for a year period, highlighting production goals for the major categories of loans and deposits. These budgets will be reviewed at least quarterly to assess actual performance relative to budget. This review of the budget will serve as a proxy to determine the Bank's adherence to its basic business plan. The directors will evaluate the Bank's progress in achieving growth, profitability, and market share. The Board will evaluate growth and profitability through qualitative and quantitative financial statement review, as part of its monthly monitoring process. Customer identification and market penetration will be key indicators of the success in achieving the goal of the Bank's business plan.

Plan Revision

The evaluation of the Bank's business plan will be a dynamic process. Factors triggering an adjustment or alteration in Bank strategies will be identified during the annual planning process and performance metrics against plan will be reviewed at the regular monthly Board meetings. Director, management and advisory board involvement in local business organizations/community associations will provide a first alert of impending changes in the local market. When changes in economic conditions are evident in the marketplace, alternative strategies for maintaining profitability will be considered to ensure that planned results and budgets remain on target. Such alternative strategies will include adjusting the mix or pricing of assets and liabilities; purchasing or selling assets; modifying staff levels; implementing or altering incentive programs; and reviewing variable expense items.

VIII. Alternative Business Strategy

The Bank's Baseline model, presented in the following section, reflects the likely financial outcome based upon the Bank's business model, prior experience of the Management team, and the potential demand for the Bank's products and services in its target market. The Baseline model has been developed applying informed cost and growth assumptions taking into account the current economic environment and the current interest rate environment – which for modeling purposes remains constant throughout the initial three years of operation.

It is management's view that the Baseline forecast represents realistic asset growth assumptions, and cost estimates that appear reasonable based upon the volume estimates. Based upon their past experience, management believes that the projected lending and deposit volumes are highly achievable. Should actual volumes fall short of forecast, staffing will be trimmed from the planned levels and the marginal costs associated with higher production would not be incurred.

An alternative business scenario has been developed to stress test the financial performance of the Bank and provide a sensitivity analysis. A summary of the results of these alternative forecasts to the Baseline model is included at the end of the Financial Projections section. Overall, it is anticipated that the initial capital would provide an adequate cushion for the Bank to maintain required minimum capital thresholds under the alternative scenario.

IX. Financial Projections

Pro Forma Financials

The Bank's opening day pro-forma balance sheet is presented below. The Bank's financial projections for the first three years of operations are presented as "Base Case".

The following is the Bank's opening day pro-forma statement of condition. This statement takes into consideration capitalized asset purchases/investments and operating expenses incurred during the pre-opening/organization timeframe:

Public Bank East Bay, Proposed. Pro Forma Statements of Condition – Beginning of Business.

Assets		**Liabilities**	
Cash and due from financial institutions	$38,750	Deposits	$0
Securities	$0	Other	$0
Loans	$0	**Total Liabilities**	**$0**
Premises	$0	**Capital**	

Furniture, fixtures, and equipment	$250	Total Capital	$40,000
Other assets	$0	Less opening and accrued organizational exp	-$1,000
Total Assets	**$39,000**	**Total Liabilities and Capital**	**$39,000**

The Bank will incur additional start-up costs consisting primarily of legal and application consulting fees, as well as consulting compensation to proposed staff needed to develop the business plan and policies and procedures, oversee the installation of the management information systems, create accounting and general ledger systems, and perform other duties requisite for the establishment of the Bank. Start-up money before the capital above is deposited in the Bank is expected to be raised by the Friends.

Detailed financial projections for the first three years are available in separate files.