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Administrator of National Banks

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PUBLIC DISCLOSURE

**COMMUNITY REINVESTMENT ACT PERFORMANCE
EVALUATION**

April 28, 1997

Hawaii National Bank
Charter Number 14911
45 North King Street
Honolulu, Hawaii 96817

NOTE: This evaluation is not, nor should it be construed as an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Hawaii National Bank, Honolulu, Hawaii** prepared by the Office of the Comptroller of the Currency (OCC), the institution's supervisory agency.

The evaluation represents the OCC's current assessment and rating of the institution's CRA performance based on an examination conducted as of **April 28, 1997**. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessment of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Appendix A lists the scope of this evaluation.

DEFINITIONS

Low- and Moderate-Income (LMI) Geographies - Census tracts where income levels which are less than 80% of the median family income for the locality. Levels less than 50% of the median are considered low-income.

Middle-Income Geographies- Census tracts where income levels that are equal to or greater than 80% and less than 120% of the median family income for the locality.

Upper-Income Geographies- Census tracts where income levels are equal to or greater than 120% of the median family income for the locality.

Median Family Income- As determined by U.S. Census Bureau data in 1990.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution's Rating

Based on the findings presented below, this institution is rated:

" Outstanding Record of Meeting Community Credit Needs."

Evaluation Period: This disclosure evaluates the bank's performance from March 31, 1994, through March 31, 1997.

Bank Profile

Hawaii National Bank (HNB) is a wholly owned subsidiary of Hawaii National Bancshares (HB). Headquartered in downtown Honolulu, the bank operates 12 full service branches on three islands. As of December 31, 1996, the bank's total assets are \$294 million, which ranks as the 11th largest financial institution in Hawaii. By comparison, 75% of Hawaii's deposits and 77% of Hawaii's assets are domiciled at three financial institutions, with HNB having about 1% of the banking market (see **Appendix B**). Assessment Factor K provides additional discussion on restrictions unique to Hawaii and HNB's lending activities relative to Hawaii's other financial institutions. Almost all the bank's lending activities are on the islands of Hawaii. As seen from the accompanying table, secured real estate and commercial lending activities accounts for the majority of the bank's outstandings.

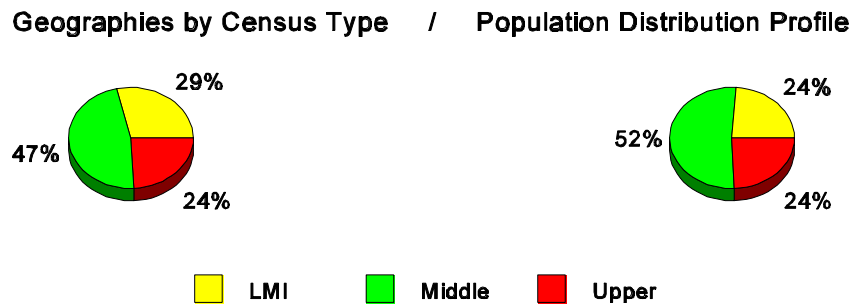
Loan Type		12/31/96
Residential RE	\$105 million	
Comm'l RE	\$24 million	
Real Estate		\$129 million
Commercial		\$73 million
Individual/Installment		\$8 million
Agricultural		\$0.25 million
Total Loans		\$210 million

Community Profile

The islands of Hawaii are linked with the world's two largest and dynamic economic regions, Asia-Pacific and the United States mainland. In general terms, Hawaii's economy is dependent on imports from these regions for most items consumed, while tourism is considered the main industry. The Hawaiian economy has been in an extended

downturn since 1992, and has consistently underperformed the nation as a whole. Negative events include a severe construction downturn, restructuring in retail trade and food processing, sugar and pineapple plantation closures, federal government reductions, a state government fiscal crisis, and most importantly, prolonged recessions in California and Japan, which comprise the majority of tourist visitors. Recently, a modest recovery in tourism has exerted a positive influence over the economy. The statewide unemployment rate, as of December 1996, was 5.9% as compared with the national unemployment rate of 5.3%. Compared to other states, Hawaii has a higher than average share of public sector employment and a disproportionate dependence on U.S. military spending. Also, housing costs are *well above* national averages. Please refer to **Appendix F** for additional details on the economic outlook of Hawaii.

The state of Hawaii is comprised of four counties: Honolulu, Kauai, Maui, and Hawaii. Honolulu is the only MSA, and contains nearly 75% of the total state population. Based on 1990 Census Bureau information (the latest for which census tract data is available), 24% of the islands census tracts are classified upper income, 47% middle income, and 29% LMI census tracts. These percentages roughly correspond with the percentage of population within these tracts. The illustration below reflects the geographic and population profile



distribution.

While middle income geographies constitute the largest segment within the state, many LMI families reside in all types of census tracts. For instance, within the areas where HNB maintains branches, the percentage of LMI families is higher than the number of LMI census tracts. The adjacent table displays the median income within the island communities where the bank maintains branches, the total population within those census tracts, the percentage of LMI families to total families, and the percentage of LMI census tracts to total tracts.

Income and Population Demographics				
Island	Median Income	Population	Total LMI Families	LMI Census Tracts
Oahu	\$45,313	836,231	38%	25%

Income and Population Demographics				
Maui	\$37,990	100,347	14%	9%
Hawaii	\$37,990	120,317	37%	36%

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A: Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

- **HNB has taken affirmative steps to address community credit needs that are identified through their ascertainment program.**
- **HNB's ascertainment program continues to actively seek community opinions.**

The bank ascertains the community credit needs through a comprehensive employee call program, producing effective results. Three thousand, eighty six calls have been made on existing and potential business clients through the bank's Personal Banker Program during the evaluation period. While targeted generally to small businesses, contacts under the program also include nonprofit community assistance groups, government assistance and development agencies, and specialized chambers of commerce. For example, during the month of March 1996, 85 visits were made to businesses, 18 calls to customers, and 17 meetings with groups, organizations, and associations. These groups included the Big Island Business Council, the Filipino Chamber of Commerce, Financial Women International, the Hawaiian Economic Development Corporation, the Honolulu Japanese Chamber of Commerce, Lokahi Pacific, and the Mortgage Bankers Association of Hawaii. On an ongoing basis, the Marketing Department and Community Reinvestment Officer reviews the findings of the Personal Banker Program to better understand the credit needs of the business community.

Bank officers continue to participate in community organizations, activities, forums, and seminars. While these activities provide the bank with name exposure in its markets, these interactions also provide community feedback regarding the islands economic characteristics, housing needs, and consumer loan demand, among other factors. In addition, the Community Reinvestment Officer monitors Hawaii's demographic characteristics against the bank's overall lending patterns to identify any conspicuous gaps.

HNB determined the primary community needs include credit products for established small businesses and homeowners, including less restrictive lending criteria, and the

creation of affordable housing. The OCC, as well as other regulatory agencies, have also met or discussed the credit needs of Hawaii with various community-based groups. The consensus of these groups indicate the same types of financing needs within this community, as well as the need for providing education on basic banking and assistance to first-time homebuyers. Therefore, the bank's ascertainment process is effective in determining community credit needs. **Appendix C** lists the community credit needs identified by the groups contacted during this evaluation.

Examples of actions the bank has taken to address the community's needs include:

Credit Products for Small Businesses

The bank is a participant in the *Hawaii Small Business Loan Program (HSBLP)*. HNB has committed \$150 thousand to fund loans under the program, which provides small businesses with access to funds under the U.S. Small Business Administration's (SBA) 7a Program. This commitment is a significant percentage, compared to the size of other financial institutions who participate. **Appendix E** lists the participants in *HSBLP* and their proportionate share. Most of the loans originated by *HSBLP* are to individuals and the loans totals are below \$50 thousand. This "micro" funding is typically needed for small, independent community businesses. Origination volumes of loans through this program are detailed under Assessment Factor I.

In addition, HNB funds loans guaranteed directly by the Small Business Administrations' 7a and 504 Programs. These programs offer more flexible equity and collateral requirements for small businesses. SBA loan volumes are provided under Assessment Factor J.

Less Restrictive Lending Criteria

HNB continues to offer flexible underwriting terms for loans under the *Kakaako Relocation Fund*, sponsored by the State of *Hawaii Community Development Authority*, and the state of *Hawaii Housing and Finance Development Corporation's (HDFC) Downpayment Loan Program*. Funds provided by the Kakaako Relocation program are below market rate. HDFC's program provides additional downpayment financing to eligible home buyers at substantially below market interest rates (3%) and interest only for the first five years. Assessment Factor I provides a more detailed description of these programs.

Creation of Affordable Housing and Construction Financing

Funding for construction and purchase of affordable housing is ongoing. A significant portion of HNB's lending is real estate secured, evidenced by \$105 million in real estate mortgages. In response to the increasing housing prices in the Honolulu area, the bank

participates in a *Downpayment Loan Program*. This program is available to borrowers with modest incomes who qualify for a home but need funds for the downpayment, or closing costs.

The bank is an equity partner, and loan participant in the *Hawaii Community Reinvestment Corporation (HCRC)*, a non-profit mortgage consortium. HCRC provides financing for large affordable housing projects in Hawaii. HNB also recently joined the Federal Home Loan Bank of Seattle, which maintains programs to assist member institutions in financing affordable housing.

Educational Needs

Management actively participates in business forums and speaking engagements, many of which are designed to educate small business owners on the availability of banking services. Several bank officers are members of their local community organizations, providing expertise in finance and budgeting. Also, the bank will provide community groups use of its training room for meetings, free of charge.

Assessment Factor C: The extent of participation by the institution's Board of Directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

- **The Board and senior management exercise policy oversight and have taken an active role in evaluating and enhancing the bank's CRA performance.**
- **Management provides the CRA Committee with reports of performance.**
- **The Board and management continue to participate in local activities, many of which are designed to develop, improve, and enhance the community.**

The CRA Committee, a subcommittee of the Board of Directors, oversees and directs all activities relating to compliance with CRA. The CRA Officer and regulatory Compliance Officer conduct annual reviews of the CRA Statement and Policy, and report the bank's performance in meeting CRA goals at every meeting. Lending data is analyzed at least annually, and the Committee reviews a summation of lending distribution and fair lending patterns. This information is used to establish marketing strategies for improving low volume segments within the bank's community.

Directors and senior managers are in several leadership positions on community development or CRA oriented organizations. These include the *Hawaii Community*

Reinvestment Corporation, the Hawaii Economic Development Corporation, Lokahi Pacific, the Native Hawaiian Revolving Fund, and the Hawaii Small Business Loan Program. This level of participation reflects a strong commitment to CRA, considering the HNB's size and market share.

Our review of HNB's CRA Statement showed that it meets regulatory requirements. The CRA Statement is expanded, and includes a description of the Bank's CRA process and credit products and services available. The bank is in compliance with all other technical requirement of CRA.

II. **MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED**

Assessment Factor B: The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

- **The Board and senior management review lending performance when establishing marketing programs.**
- **Marketing strategies are designed to reach all segments of the bank's delineated community, including LMI geographies and individuals.**

The Board and management consider lending performance distribution described in Assessment Factor C and uses the Personal Banker Call Program and advertisements to ensure they reach all segments of the bank's community. The CRA Officer analyzes Home Mortgage Loan Data (HMDA) to illustrate lending performance. The analysis tracks the number and the dollar amount of mortgage applications the bank receives geographically by island census tract. Bank management reviews this information, along with community demographics, to determine if the bank is reaching all communities. For example, based on such a geographic analysis, in 1994 and 1995 the bank originated 80% of its small business loans from within its delineated community and 36% within LMI areas. The CRA Officer also analyzes mortgage lending, which is detailed under Assessment Factor I.

HNB advertises its products and services through typical mass media types, including television, radio, print, and in-branch product brochures. Print advertising is widely used in Hawaii and is viewed by a large proportion of the islands population. The bank also advertises in alternative media types, targeted at the islands ethnic population and/or neighborhoods, e.g., ethnic minority media, foreign language publications, community newspapers, and special event flyers. For example, the bank advertises on the local Chinese television station.

In addition, HNB employees have participated in meetings or forums designed to offer local small business owners the opportunity to gather information and learn about resources that are available to them. Topics vary, such as how to start a business, how to access credit, and the types of public and private programs that exist to support small businesses.

Assessment Factor I: The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

- **The bank has demonstrated strong performance in lending to small businesses. The bank is an active real estate lender and has made a reasonable effort to originate consumer loans. The bank participates in several unique lending programs to assist it's community.**
- **A significant number of loans are originated within the bank's delineated community, including low- to moderate-income areas. Loan origination volumes are good, given the institution's resources.**

Aggregate Lending Performance

HNB's commitment to financing local businesses is good, reflected in 369 commercial loan originations in 1994, and 338 in 1995. Over 80% of these commercial loans were within the bank's delineated community. Virtually all commercial loans are made in the State of Hawaii.

Based on the bank's HMDA loan application register, HNB originated 97 home purchase, refinancing, or home improvement loans in 1994, 66 in 1995, and 43 in 1996. Approximately 60% of these originations by number, and 67% by amount, are within the bank's delineated community. Again, virtually all real estate loans are on property located in the State of Hawaii.

AGGREGATE LOAN ORIGINATIONS, BY LOAN TYPE, 1994 - 1996		
PRODUCT	\$ (Thousands)	# of Loans
Home Purchase	\$8,595	44
Home Improvement	\$302	14
Refinancing	\$20,824	105
Small Farm	\$463	4
Small Business (1)	\$25,000	896

(1) Per Small Business Administration (SBA) compiled statistics.

Small Business Lending

HNB demonstrates strong performance in originating small business loans in its community. The bank is an approved lender for the federal government's Small Business Administration (SBA) loan programs. It is noteworthy that the SBA compiled lending statistics on small business lending in Hawaii, and ranked Hawaii National Bank first within it's asset size.

In 1996, the bank began collecting small business loan data under the new CRA

regulation. This data shows the bank made 304 small business in 1996, 90% of which are within it's delineated community. Eighty four percent of these loans were under \$100 thousand. Accordingly, this type of "micro" financing is a valuable resource for small, independent community businesses. The following reflects the bank's small business lending in 1996:

Small Business Loans in 1996		
	#	\$ ('000)
Total Loans Originated (#)	304	23,757
Loans under \$100 thousand	254	8,305
Loans \$100 thousand - \$250 thousand	24	4,230
Loans above \$250 thousand	26	11,222

HNB has also responded positively to the identified needs of small business owners by developing or participating in innovative loan programs. Those programs include the following:

The *Overseas Chinese Credit Guarantee Fund (OCCGF)* - This program, in association with the Taiwan Government, was created to respond to frequently identified needs of small Chinese owned business. The program provides less restrictive credit standards than are available under SBA programs. Loans and letters of credit are available under this program. Since entering into the program in 1994, the bank has originated 10 loans with current outstandings of \$723 thousand.

The *Hawaii Small Business Loan Program (HSBLF)* provides funding for small and emerging businesses in Hawaii. HNB has been a participant since *HSBLF*'s inception in 1994 and currently has three loans funded under this program, with \$62 thousand in outstandings. The program has approved 49 loans totaling \$2 million to date, primarily to individuals.

The *State of Hawaii, Community Development Authority (HCDA), Kakaako Relocation Loan Program* - The goal of the Kakaako Program is to provide affordable funds to small businesses within this district who are displaced due to neighborhood improvements or city redevelopment. The state has appropriated \$1 million under the program to provide loans up to \$50 thousand for such expenses as relocation costs, capital improvements, or other reasonable or necessary costs resulting from displacement. The loans are at below market rates (7% fixed), with minimum eligibility requirements. There are four loans currently outstanding (\$57 thousand) under this program.

Residential Lending Activity

Mortgage lending volumes have steadily decreased since the last CRA Performance Evaluation, as the Hawaiian economy stagnated. However, approval ratios of applicants during this period indicate the bank remains committed to financing housing, including affordable housing. The bank only denied 20 mortgage applicants, or 7%, between 1994 and 1996, which compares very favorably to the 15% average of its peer financial institutions within the MSA. Only five denied applicants resided in LMI census tracts. The majority of the mortgage applications the bank received were for refinancing, due in part to the high cost of housing, and were from the Honolulu MSA.

The HMDA data for 1994 and 1995 indicates mortgage applicants are predominately within the middle and upper income brackets. The following table reflects the percentages of these type applicants:

Income Type of Hawaii National Bank Real Estate Applicants during 1994 and 1995			
Income Type	# of Real Estate Applications*	% of Population	% of Type Tracts
LMI	15%	24%	29%
Middle	23%	52%	47%
Upper	62%	24%	24%

* Real estate application include home purchase, refinance, and home improvement type.

To assist LMI homebuyers, HNB participates in several organizations or programs designed specifically for first time buyers or LMI individuals. HNB offers the following special credit-related products to address the needs of LMI individuals:

The *Hula Mae Single Family Program* was developed by the Hawaii Housing Authority. The program offers mortgage loans for LMI home buyers at interest rates below those available on conventional loans. The program offers flexibility in several areas, such as downpayment, debt-to-income ratios, and credit history. As of this evaluation date, 11 loans totaling \$616 thousand are outstanding under this program.

The state of Hawaii's *Housing, Finance, and Development Corporation's (HFDC) Downpayment Loan Program* provides additional downpayment financing to eligible home buyers. Loans are made at below market rates (3%) and are interest only for the first 5 years. The program will provide up to 30% of the purchase price or \$15 thousand, whichever is less. The program was created to assist those families with incomes not exceeding 120% of HUD's established median income. HNB is one of only four commercial banks which participates in this program. HNB has funded one loan, for \$10,300 since entering the program in 1996.

Consumer Lending

Consumer lending comprises only 4% of HNB's total loan portfolio. The bank offers typical consumer type loans, designed for personal, family, and household needs.

Assessment Factor J: The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small businesses, or small farms.

- **HNB affirmatively participates in governmentally guaranteed, or sponsored programs.**

The bank actively participates in governmentally insured loan programs for small business. HNB is an SBA approved direct lender, with approximately \$352 thousand in SBA's 7a guaranteed loan program. Based on SBA compiled lending statistics on small business lending in Hawaii, and Hawaii National Bank is ranked first based on its asset size.

HNB originates and provides servicing of mortgage loans for the *State of Hawaii, Employee Retirement System*. Under this program, financial institutions provides its expertise in evaluating applications, and approving home loans to qualified, retired state employees. The loans are then sold to the state, but the financial institution provides loan servicing. As of 3/31/97, the bank was servicing 267 (\$8 million) in first deed mortgages, and six (\$62 thousand) in second deed mortgages, under this program. The bank also participates in the state sponsored or subsidized programs listed under Assessment Factor I.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

- **HNB's delineation is reasonable and meets the purpose of CRA.**

HNB lists 3 delineated communities, defined as the contiguous census tracts surrounding its 12 branch offices (**Appendix D**). The Oahu delineated community consists of the 114 census tracts surrounding the bank's main branch, located in downtown Honolulu, and 8 additional branches within the Honolulu and Kailua area. The Maui delineated community consists of 10 census tracts contiguous to the Kahului and Kihei branches. The island of Hawaii delineated community includes 10 census tracts around the Hilo branch. The island demographics vary from densely populated Oahu to relatively sparsely populated and rural Hawaii. This delineation adequately serves metropolitan and rural areas, and does not arbitrarily exclude LMI neighborhoods, evidenced by the higher proportion of branches within LMI census tracts than percentage of LMI within HNB's delineated community. (Note: Many of the census tracts within the State of Hawaii are

military installations, government rental projects, or contain no owner occupied housing.)

Census Tract Comparison			
Type Tract	Delineated Community only	All Island Tracts	Branch Locations
LMI	26%	29%	34%
Middle	44%	47%	58%
Upper	30%	24%	8%

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

- **HNB conducts a well-documented analyses of the geographic distribution of its real estate and commercial loan products.**
- **The geographic distribution of loan originations is reasonable and reflects good responsiveness to community credit needs, based on the banks size and location of branches. A majority of the banks loans are within it's delineated community and are consistent with the demographic patterns.**
- **The distribution of small business loans is good, with a substantial portion in LMI areas.**
- **The geographic distribution of HNB's mortgage products between 1994 and 1996 are reasonably disbursed within all type of geographies. In addition, no disparities are evident based on applicant types.**

HNB analyzes the geographic distribution of its real estate credit applications and originations annually. In addition, the CRA Officer conducts an in-depth analyses of HMDA loan distribution and disposition by race/national origin, gender, and income level. This analysis includes denials and considers distribution between LMI and non-LMI, MSA and Non-MSA areas for each of the islands served by HNB branches.

The bank's real estate lending performance is overlaid against the demographics within the bank's markets. Management attempts to identify any conspicuous gaps in the bank's lending patterns, in terms of race and gender. Performance is analyzed to peer data to better understand any lending patterns.

The CRA Officer also performs an analysis of small business loan penetration. The Board's CRA Committee reviews all performance analyses annually.

Small Business Lending

The distribution of small business loans within the bank's assessment area by income level is good. HNB originated 338 small business loans in 1995 and 369 in 1994. Over 80% of these type loans are within the bank's delineated community. In addition, virtually 100% of lending is within the State of Hawaii. Further analysis of the lending data by the CRA Officer reflects 36% of the relationships (by number) were in LMI areas, 39% in middle income areas, and 25% in upper income areas.

Furthermore, 1996 small business lending data, collected under the new CRA regulation, reflects 273 loans or approximately 90% are within the bank's delineated community. The 1996 small business lending pattern also compares favorably to the percentage of LMI tracts within the bank's delineated community. For these types of loans, 37% by count and 44% by volume went to LMI geographies.

1996 Small Business Lending - Census Tract Comparison			
Type Tract	Delineated Community only	# of Small Business Loans	\$ of Small Business Loans
LMI	26%	37%	45%
Middle	44%	51%	43%
Upper	30%	12%	12%

Mortgage Applications

Our analysis included a review of the 1994, 1995, and 1996 HMDA Loan Application Register (LAR) data. Sixty percent of the bank's mortgage applications, by number, and 67%, by dollar, were from areas within the bank's delineated community. Virtually all applications were from Hawaii residents.

Within the bank's delineated community, 9% of the applications by number, and 5% by dollar amount were generated from LMI census tracts. This compares to 42% and 49%, by number, which were originated from middle and upper income tracts. However, 15 of the LMI census tracts within the bank's Oahu delineated community were identified as industrial areas, airports, or military property, which contained no owner occupied housing. Adjusted for the absence of any owner occupied housing on these LMI tracts, LMI census tracts actually represents 16% of all census tracts within the bank's Oahu delineated community.

The table below reflects distribution of mortgage applications by census tract from 1994 to 1996. The table also includes the number of owner occupied housing units within the bank's delineated community by each census tract type to indicate the availability of mortgage lending.

Hawaii National Bank Mortgage <u>Application</u> Distribution by Type of Census Tract*			
	LMI Income Tracts	Middle Income Tracts	Upper Income Tracts
Apps within Delineated Community (#)	9%	42%	49%
Apps within Delineated Community (\$)	5%	36%	59%
% of Tracts within Delineated Community	16%	50%	34%
Total # of Owner Occupied Housing	8,782	44,702	89,423
% of Owner Occupied Housing	10%	50%	40%

* The demographic information was provided by PCI Services, Inc. Several tracts are classified as n/a and are not within type tract percentages, while 15 census tracts contain an insignificant number of owner occupied housing and are removed from the % of tracts within the delineated community.

Assessment Factor G: The institution's record of opening and closing offices and providing services at offices.

- **HNB’s offices are accessible to all segments of its community. Services include no fee, non-customer check cashing of government type checks.**
- **HNB’s has not closed any branches since our last evaluation. In 1995, two branches were acquired on the island Maui. The community delineation on Maui includes LMI neighborhoods.**

HNB operates 12 branches. HNB opened two new branches on the Island of Maui since it’s last CRA Public Evaluation and plans to open an additional branch office on the Island of Oahu in Pearl City in May 1997. The branch network is well disbursed, in terms of proximity to other HNB branches and types of census tracts, and readily accessible to all individuals within the bank’s delineated community. Operating hours are competitive with other financial institutions in Hawaii and offer competitive financial services. HNB has 11 automated teller machines, as well as a local telephone number for consumers to source account information. **Appendix D** lists the location of the bank’s branches and census tracts included in their community delineations.

Branch Accessibility		
Type Tract	Branch Location	Delineated Community
LMI	34%	26%
Middle	58%	44%
Upper	8%	30%

Of significance, HNB will cash *non-customers* U.S. Government, State of Hawaii, and City and County checks without a fee. This service is significant, as one-third of branches are located in LMI census tracts where this service is needed most.

IV. DISCRIMINATION

Assessment Factor D: Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

- **We found no practices intended to discourage individuals from applying for any type of credit listed on the bank's CRA Statement.**

HNB affirmatively seeks credit applications from all segments of its community, including LMI neighborhoods. Management's assessment efforts ensure that the needs of each community are identified. This information is used by management to develop appropriate loan products/services and advertising format.

The Board and management have implemented effective policies, procedures, and training programs to ensure the bank does not illegally discourage or prescreen applicants. HNB's compliance management system provides an extensive and ongoing review of the bank's performance in providing access to credit to all applicants.

The following highlights efforts initiated by the Board and management to ensure all loan applicants have an equal opportunity to obtain a loan:

- ▶ HNB has adopted a Fair Lending Policy that clearly sets forth HNB's commitment to fair lending.
- ▶ Management has reviewed and revised underwriting guidelines and procedures.
- ▶ Management initiated a secondary review of underwriting decisions, including declines.
- ▶ Management provides fair lending training to all employees.

- ▶ The bank conducts self-assessment activities including ongoing quality control reviews, and analysis of mortgage lending statistics.

Assessment Factor F: Evidence of prohibited discriminatory or other illegal credit practices.

- **Our evaluation revealed no evidence of prohibited or illegal credit practices.**

HNB is in substantial compliance with all provisions of anti-discrimination laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act. We noted no violations of the Home Mortgage Disclosure Act.

We conducted a fair lending examination of the bank's mortgage lending by reviewing terms offered to applicants. We evaluated compliance with anti-discrimination laws through a review of purchase money, refinancing, and home improvement loan applications processed between January 1, 1996 and December 31, 1996. Our file comparison process did not detect any indication of illegal discrimination.

V. COMMUNITY DEVELOPMENT

Assessment Factor H: The institution's participation, including investments, in local community development and redevelopment projects or programs.

- **HNB has maintained a proportionate position with its participation in community development and redevelopment programs, given the banks size and resources.**
- **Management continues to commit their time to establish productive partnerships with community groups and organizations.**
- **The Directors and HNB have made numerous financial contributions in support of community development activities.**

Community Development Lending

The bank is a founding member and participant in the *Hawaii Community Reinvestment Corporation (HCRC)*, a mortgage consortium established in 1991. The *HCRC* is a non-profit community development corporation, funded by seventeen local banks. To date, the consortium has committed \$50 million towards financing affordable housing projects in Hawaii. Member institutions share of the loan commitment is on a pro-rated basis,

based on deposit market share within Hawaii. As of March 31, 1997 HNB has disbursed \$409 thousand of a \$772 thousand commitment towards *HCRC* projects. In 1996, *HCRC* financed 3 affordable housing projects with 193 units, and since inception, financed 19 projects with 718 units. Overall, the *HCRC* staff will also provide technical assistance for the development of affordable rental properties in Hawaii and technical seminars intended to give participants a basic working knowledge of all available financial programs. **Appendix E** lists the participants in *HCRC* and their proportionate share.

Examples of creative partnerships formed to assist homebuyers or create housing are:

State of Hawaii Employee Retirement System (ERS) - HNB entered an agreement with *ERS* to underwrite, fund, and service the agency's home loan programs. *ERS* will allocate funds to financial institutions to lend at fixed rates and fees, typically below market.

Hula Mae Single Family Program - HNB also services these loans.

Native Hawaiian Activities - The Directors and management have maintained ongoing and targeted contacts with many native Hawaiian groups, evidenced within the bank's Personal Banker Program. Through these contacts, HNB has taken an active role in assisting these groups through grants and contributions or establishment of banking relationships.

Contributions To Community Development Corporations And Groups and Organizations Engaged In Community Development

Lokahi Pacific - The bank has contributed funds to this 20-year old, private nonprofit organization assisting Maui residents who wish to start or expand a small business. *Lokahi Pacific* operates a small business microloan program, which combines money from the financial institutions and the U.S. Department of Agriculture for loans from \$5 thousand to \$150 thousand. The bank contributed \$1,000.

Tax Credit Equity Fund of the *HCRC* - HNB provided \$4 thousand to capitalize two subsidiaries under the Tax Credit Equity Fund of *HCRC*. The Tax Credit Equity Fund is the first and only fund of this type in Hawaii.

<p>Assessment Factor K: The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.</p>
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- **HNB's financial performance does not impede its ability to help meet the credit needs of its delineated communities. However, several unique characteristics exist in its marketplace, which inhibit mortgage lending.**

HNB is Hawaii's 11th largest financial institution. Relative to the other institutions market share in Hawaii, HNB is usually in a subordinate role within the consortium's that finance larger community development projects.

Other impediments that confront all financial institutions within Hawaii include:

- The Honolulu MSA contains the highest housing costs in the U.S. Recent data on home sales reflects a median sales price of \$333,500. Typical 30 year mortgage payments at this price level are difficult for families at, or below the MSA's median income of \$45,313. This discrepancy is a significant barrier in mortgage lending in this market.
- The Hawaiian islands contain limited geographies in which financial institutions can lend on. Large portions of the islands are property of the U.S. government, primarily military installations. Unique land title restrictions on Hawaiian Homelands also restrict all institution's ability to make conventional mortgage loans within these areas.

The bank maintains an active role in promoting economic growth and revitalization within the state. Bank management and various members of the Board have established good working relationships with business and community leaders, evidenced by the number of associations discussed within this Public Evaluation.

Assessment Factor L: Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

- **HNB has engaged in other meaningful activities that**
 - **contribute to its efforts to help meet the community's credit needs;**
 - and,**
 - **are responsive to Hawaii's social and economic needs.**

HNB, or the Directors personally, continue to make financial contributions and grants to various organizations ancillary to community development. Directors and management provide technical expertise to groups and organizations engaged in community services through their participation on boards, advisory committees, loan committees and marketing committees. The bank continues to allow use of its facilities to these groups, free of charge, and cash public assistance checks, free of charge.

Contributions To Community Groups, Organizations, Committees, and Services or Memberships.

Donations and grants are ongoing to these type groups. The bank or the Directors individually, contributed over \$68 thousand in grants to the community during the evaluation period. Recipients included the Aloha United Way, the Hawaii Children's Museum, and Adult Friends of Youth. In addition to direct donations and grants by HNB, the Hawaii National Foundation, under Hawaii National Bancshares (HB), has donated an additional \$14 thousand to such groups.

Appendix A

Scope of Examination

This evaluation covers the banks efforts since it's last CRA performance evaluation, dated March 31, 1994 until March 31, 1997.

The Board of Directors and management of Hawaii National Bank elected not to be examined under the Interagency CRA Examination Procedures for Large Retail Institutions, which will become effective July 1, 1997. These revised examination procedures evaluate performance under Lending, Investments, and Services criteria only.

The scope of our examination followed the OCC's criteria and rating of the institution's CRA performance based on a review of 12 assessment factors, which are grouped together under 5 performance categories. This assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. To understand the banks performance within it's competitive environment, we reviewed performance of similar institutions within the banks delineated community (e.g. Performance Evaluations, Uniform Bank Performance Reports, Home Mortgage Disclosure Data, Federal Deposit Insurance Corporation statistics for commercial banks, etc.).

We also talked with representatives of local, community groups to better understand the neighborhoods the institution conducts it's business. These groups helped provide us with additional information on the credit and community development needs within the State of Hawaii. We also reviewed demographic information available for the bank's delineated communities.

We reviewed the bank's records from it's main office, located at the address listed on the cover of this performance evaluation.

Appendix B

Summary of Commercial Banks and Thrift Associations within the state of Hawaii

Comparable Data - December 31, 1996					
	# of Branches	\$ Deposits ('000)	% of Deposits	\$ Assets	% of Assets
Bank of Hawaii	76	7,762	37%	12,459	44%
First Hawaiian Bank *	58	4,484	22%	5,957	21%
American Savings Bank	46	2,178	10%	3,592	13%
Bank of America	39	1,527	7%	n/a	n/a
Central Pacific Bank	26	1,128	5%	1,398	5%
First Federal S/L	24	868	4%	1,224	4%
Finance Factors LTD	21	431	2%	499	2%
Pioneer Federal S/L*	19	407	2%	778	3%
First Hawaiian Credit Corp. *	13	358	2%	438	2%
City Bank	13	559	3%	771	3%
Hawaii National Bank	12	264	1%	294	1%
Territorial S/L	12	259	1%	334	1%
International S/L	11	402	2%	639	2%
Bank of Honolulu	5	86	0%	95	0%
All other Institutions ≤ \$100 million	20	59	0%	139	0%
Totals	395	20,772	100%	28,617	100%

source: www.fdic.gov

*First Hawaiian Bank, Pioneer Savings and Loan, and First Hawaiian Credit Corp. are wholly owned subsidiaries of First Hawaiian, Inc. a bank holding company.

Note: Some Bank of America data was unavailable.

Appendix C

Summary of Community Credit Needs identified through Community Contacts

Community Groups and Organizations contacted during the Examination			
	Primary Credit Needs	Secondary Credit Needs	Other
Community Group A	Home Improvement	Low Income Tax Credits	Flexible Terms
Community Group B	Small Business Loans	Mid-Market Financing	Rental Housing
Community Group C	Affordable Housing		
Community Group D	Multi-Family Housing	Flexible Terms	
Community Group E	Affordable Housing	Flexible Terms	Credit Counseling / Rural Housing

Appendix D

The listing of the census tracts included within each delineated community.

Oahu Branches:

Main Branch	45 North King Street, Honolulu
Airport Branch	540 Lagoon Drive, Honolulu
Bishop Street Branch	841 Bishop Street, Honolulu
Dillingham Branch	1505 Dillingham Blvd., Honolulu
Hawaii Kai Branch	266 Lunalilo Home Road, Honolulu
Kaimuki Branch	3450 Waialae Avenue, Honolulu
Kalihi Branch	1620 North School Street, Honolulu
Makiki Branch	1163 South Beretania Street, Honolulu
Kailua Branch	539 Kailua Road, Kailua

Census Tracts included within the Oahu Delineated Community include numbers 1.02 to 72 and 109.01 to 112.02:

1.02, 1.04, 1.05, 1.06, 1.07, 1.08, 2, 3.98, 4.97, 4.98, 5, 6, 7, 8, 9.01, 9.02, 9.03, 10, 11, 12.01, 12.02, 13, 14, 15, 16, 17, 18.01, 18.02, 19.01, 19.02, 20.01, 20.02, 21, 22, 23, 24.01, 24.02, 25, 26, 27.01, 27.02, 28, 29, 30, 31.01, 31.02, 32, 33, 34.03, 34.04, 34.05, 34.06, 34.07, 35, 36.96, 36.97, 36.98, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 57.99, 58, 59, 60, 61, 62.01, 62.02, 63.01, 63.02, 64.01, 64.02, 65, 66, 67.01, 67.02, 68.02, 68.03, 68.04, 68.05, 68.06, 68.07, 69, 70, 71, 72, 109.01, 109.03, 109.04, 109.05, 110.00, 111.03, 111.04, 111.05, 111.06, 112.01, 112.02.

Maui Branches:

Kahului Branch	50 South Puunene Avenue, Kahului
Kihei Branch	1325 South Kihei Road, Suite 100, Kihei

Census Tracts included within the Maui Delineated Community include numbers 306 to 313 :

306, 307, 307.99, 308, 309, 310, 311.01, 311.02, 311.03, 312, 313

Hawaii Branches:

Hilo Branch	30 Kalakaua Street, Hilo
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Census Tracts included within the Hawaii Delineated Community include numbers 203 to 209:

203, 204, 205, 206, 206.99, 207.01, 207.02, 208.01, 208.02, 209

Appendix E

The following table reflects member share of the CDC projects or loan commitment pools, as of December 31, 1996:

Members Share of HCRC Loan Commitment			
Financial Institution	Total Deposits ('000)	% Interest	\$ Commitment
Bank of Hawaii	4,786,369	28.16%	14,080,904
First Hawaiian Bank	4,231,447	24.90%	12,448,392
American Savings Bank	2,195,345	12.92%	6,458,433
Bank of America	1,526,696	8.98%	4,491,350
Central Pacific Bank	1,105,201	6.50%	3,251,364
First Federal Savings	856,306	5.04%	2,519,146
City Bank	566,384	3.33%	1,666,231
Pioneer Federal Savings	501,276	2.95%	1,474,692
Finance Factors	432,325	2.54%	1,271,847
First Hawaiian Credit Corp	358,479	2.11%	1,054,601
Hawaii National Bank	262,429	1.54%	770,000
Bank of Honolulu	92,828	0.55%	273,088
Rainbow Financial	30,855	0.18%	90,772
Standard Financial	24,826	0.15%	73,035
Realty Finance	15,040	0.09%	44,246
Commercial Credit Corp.	8,137	0.05%	23,938
GECC Financial Corp.	2,015	0.01%	5,928
Total	16,995,958	100.00%	49,997,966

Members Share of Hawaii Small Business Loan Program				
Financial Institution	Total Deposits ('000)	% Deposit Share	\$ Commitment	% Commitment
Bank of Hawaii	4,786,369	32.41%	650,000	22%
First Hawaiian Bank	4,231,447	28.66%	650,000	22%
Bank of America	1,526,696	10.34%	650,000	22%
City Bank	566,384	3.84%	300,000	10%
Central Pacific Bank	1,105,201	7.48%	300,000	10%
Hawaii National Bank	262,429	1.78%	150,000	5%
Bank of Honolulu	92,828	0.63%	150,000	5%

Members Share of Hawaii Small Business Loan Program				
American Savings Bank	2,195,345	14.87%	150,000	5%
Total	14,766,699	100.00%	3,000,000	100%



APPENDIX F

HAWAII - ECONOMIC OUTLOOK

Hawaii ranked 50th in the nation in economic growth in 1995, and continued to lag the U.S. in growth for the sixth consecutive year in 1996. Hawaii is projected to have moderate growth in 1997, but the state continues to struggle in its core industries:

- Residential and commercial real estate markets are weak.
- Agricultural industries have been consolidating.
- Tourism has struggled in the face of the Japanese recession and devalued Yen.
- State and local government is cutting back as falling real estate values reduce property taxes.
- Military personnel numbers continue to decline.
- Capital investment has been stagnate.

1996 employment was below 1995, or much weaker than forecasts had predicted. The unemployment rate as of February 1997 is 5.5%, a slight decrease from 5.9% in 1996. The declines have been broad-based with nearly every industry group registering year over year declines. Surveys of business confidence indicate many businesses hold neutral expectations. Respondents continue to worry about goods-producing industries and construction. Thus, the 1997 forecasts of improvement still may be somewhat optimistic.

Hope is pinned on a rebounding tourism sector. Visitor arrivals increased in 1995/1996 and hotel occupancy rates rose as well. Increasing hotel utilization, as well as the absence of new projects, allowed room rates to rise 7% in 1996.

Eastbound visitation increased 6.6% in 1996, after a temporary lapse due to the Kobe earthquake, and westbound visitor traffic increased 1.5%. Forecasts look for a 5% increase in visitor arrival in 1997, with the largest strength again coming from Asia.

However, the recent trend is for shorter stays and the Japanese Yen's depreciation against the U.S. dollar dampened travel demand in the later part of 1996. On a positive note, United Airlines increased its weekly seat capacity to the Hawaiian market by 9,000 in July of 1996, including the introduction of direct flights to the big island of Hawaii. (Note: nearly 90% of eastbound visitors travel on group or package travel arrangements.) In terms of visitor days, westbound traffic still accounts for nearly two-thirds of the of the total.

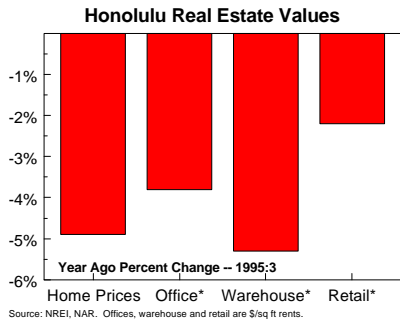
Retail spending by Hawaiians has dropped sharply. The combination of job losses, declining property values and sharply higher home insurance costs in the wake of Hurricane Iniki has eroded retail sales across the state. The effects of the weakening yen contributed to the decline in retail sales as well.

Employment in food processing statewide has fallen by 30% this decade. Sugar plantations are being closed in Hawaii, Oahu, and Kauai. Uncertainty over U.S. farm policy contributed to the closings according to local analysts. DRI is forecasting an additional loss of nearly 6,000 more jobs through the end of this decade.

Construction has been the hardest hit sector in the economy. Construction accounted for 33% of the state's job losses between 1992 and 1994 and an additional 12% in 1995. Overbuilding, sluggish tourism and high prices have all contributed to this situation. Local forecasts expect construction to bottom out in 1995 and then gradually improve through the remainder of the decade.

Little new construction is planned. The Honolulu office market has slumped with vacancy rates sharply higher and rents falling. Tourism's sluggish performance has caused new hotel plans to be delayed. Permit count in 1996, as well as other indicators, point to another flat year for construction in 1997. On a positive note, the completion of the new Convention Center should stimulate additional construction in Waikiki. The state of Hawaii has also announce a \$1 billion construction program to further boost construction activity in the state.

Meanwhile, housing will continue to suffer from



slow population growth and high home prices. The medi

an home price in Honolulu fell in 1996 from the year earlier. Still, at \$333,500, the median home price for the island of Oahu during the fourth quarter are among the highest in the nation. DRI expects housing starts to total 6,500 for the year, an 11% decrease from 1995 levels.

APPENDIX F - Cont.

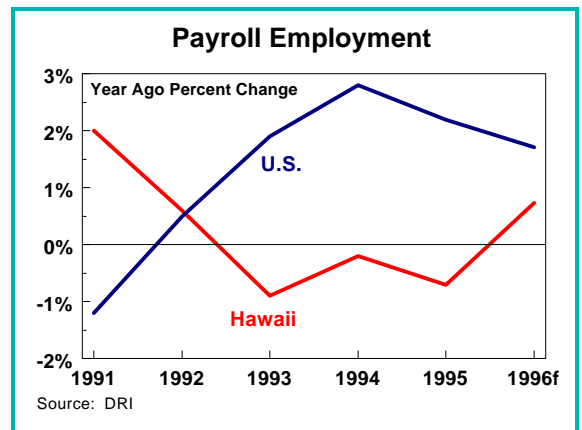
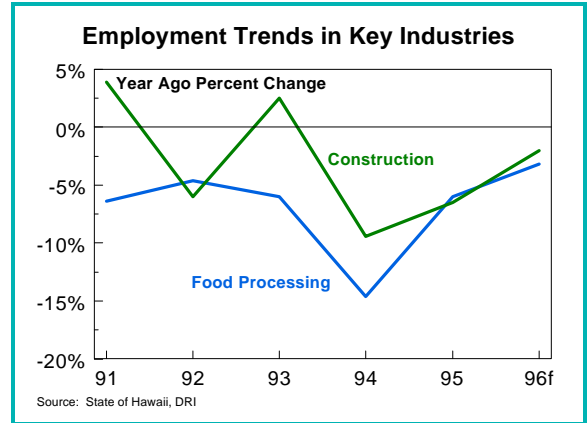
Regionally, weakness has been concentrated in Oahu and the Big Island of Hawaii. It is here that the slump in tourism and overbuilding of commercial property markets has been concentrated.

Kauai has gradually come back from its devastating Hurricane in 1991. The hotel sector is slowly reviving, helping to rejuvenate the island economy. Nonetheless, the sector is still well below its 1991 employment level. That, and on-going cutbacks at sugar processing operations, has kept the Island's unemployment stubbornly high. It was at 9.5% in November 1995.

Until last year, Maui county had largely escaped the downturn. But conditions weakened noticeably in 1995 and 1996. Overall employment declined, led by decreases in Construction jobs.

Employment Sectors - 1995 Jobs	
Services / miscellaneous	31%
Wholesale / retail trade	26%
Government	21%
Transportation / utilities	8%
Finance / insurance / real estate	7%
Construction	5%
Manufacturing	3%

Note: Sources for this Economic Outlook included the OCC and local financial institutions economic and business analysis.



Hawaii Forecast	Annual Average				Year Ago Percent Change		
	1993	1994	1995	1996	1994	1995	1996
Payroll Employment (thous)	537	536	533	537	-0.2%	-0.7%	0.7%
Personal Income (\$ bill)	27.4	28.3	29.3	30.3	3.3%	3.5%	3.4%
Population (thous)	1.17	1.18	1.19	1.21	1.1%	1.0%	1.1%
Per Capita Income (\$ thous)	23.4	23.9	24.5	25.1	2.2%	2.5%	2.3%
Housing Starts (thous)	6.9	6.9	7.3	6.5	0.0%	5.8%	-11.0%

Source: DRI