



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Heritage Commerce Corp

Person to be contacted regarding this report:	Larry McGovern (408-494-4562)
UST Sequence Number:	55
CPP Funds Received:	40,000,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Nov 21, 2008
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	2209553
Holding Company Docket Number: (For Thrift Holding Companies)	
FDIC Certificate Number: (For Depository Institutions)	
City:	San Jose
State:	California

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	We estimate our lending activity (new loans and renewed loans) would have been reduced by approximately \$190 million without the CPP proceeds, as the Company was actually moving toward a program to sell loans and loan participations prior to participation in the CPP.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	SBA loan originations totaled \$25.2 million in 2009.
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input type="checkbox"/>	Make other investments	
<input checked="" type="checkbox"/>	Increase reserves for non-performing assets	CPP funds provided the capital to enable the Bank to recognize an additional \$39.5 million in nonperforming assets between September 30, 2008 and December 31, 2009 and still remain well capitalized.
<input checked="" type="checkbox"/>	Reduce borrowings	\$15 million of the CPP proceeds was used to repay all of the Company's obligations under a line of credit with its correspondent bank.
<input checked="" type="checkbox"/>	Increase charge-offs	CPP funds provided the capital to enable the Bank to recognize \$32.0 million in net charge-offs between September 30, 2008 and December 31, 2009 and still remain well capitalized.
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input checked="" type="checkbox"/>	Held as non-leveraged increase to total capital	\$5 million of the CPP funds remain at the Holding Company level for future use.

What actions were you able to avoid because of the capital infusion of CPP funds?

Although before receiving the CPP funds in November 2008, the Company's capital ratios were above the "well capitalized" regulatory guidelines, liquidity pressures had not substantially eased. As a result, management continued to pursue opportunities to liquidate the existing loan portfolio. The capital infusion of CPP funds enabled the Company to remain above the "well capitalized" regulatory guidelines and improved the Company's liquidity position without liquidating substantial amounts of the loan portfolio. We estimate our lending activity (new loans and renewed loans) would have been reduced by approximately \$190 million without the CPP proceeds, in order for the Company to remain in a "well capitalized" position.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

The Company received \$40 million in CPP funds in November 2008, of which the Holding Company downstreamed \$20 million of the proceeds to the Bank. The Bank subsequently paid a \$5 million dividend to the Holding Company.

The Company made total loan commitments of \$779.5 million, representing \$190.5 million in commitments for new loans and \$589.0 million in renewed loans from the time of receipt of the CPP funds on November 21, 2008 through the end of 2009. We believe this lending activity would have been much lower without the CPP proceeds. Total loans outstanding decreased from \$1.25 billion at September 30, 2008 to \$1.07 billion at December 31, 2009 due the timing of funding loan commitments, net charge-offs, loan payoffs, and principal paydowns.

The CPP funds permitted the Company to absorb the additional deterioration in its loan portfolio. CPP funds provided the capital to enable the Bank to recognize an additional \$85.6 million in classified loans, \$39.5 million in nonperforming assets and \$32.0 million in net charge-offs between September 30, 2008 and December 31, 2009 and still remain well capitalized. At December 31, 2009, the Company's Leverage Ratio was 10.05%, Tier 1 Risked-based Capital Ratio was 11.59% and Total Risk-based Capital Ratio was 12.86%.

CPP proceeds of \$15 million was used to repay all of the Company's obligations under a line of credit with its correspondent bank. This action was taken only after a significant amount of further negotiations with the correspondent bank about possible restructuring of the line of credit, and discussions with the Board of Directors of the Holding Company and the Bank. We took this action to increase our liquidity and strengthen our capital position. By eliminating the line of credit we created further flexibility for managing our capital at both the Holding Company and the Bank level. If the line of credit had remained outstanding we would have had to either upstream more funds from the Bank over the life of the line of credit, thereby reducing capital at the Bank level, or refinance the indebtedness from a capital raising transaction at a time when the market for bank capital was very unfavorable.

CPP funds of \$5 million remain at the Holding Company level for future use.

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

According to the Paperwork Reduction Act of 1995, no persons are required to respond to a collection of information unless it displays a valid OMB control number. The valid OMB control number for this information collection is 1505-0222. The time required to complete this information collection is estimated to average 80 hours per response.