

# **PUBLIC DISCLOSURE**

**June 29, 1998**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**North County Bank**

**12-06-0385-0000**

**444 South Escondido Boulevard  
Escondido, California 92025**

**Federal Reserve Bank of San Francisco**

**101 Market Street**

**San Francisco, California 94105**

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

## **TABLE OF CONTENTS**

I.	General Information	3
II.	Institution Rating	3
III.	Performance Context	3
	A. Description of Institution	3
	B. Description of Assessment Area	4
	1. San Diego County Assessment Area	5
	2. Riverside County Assessment Area	5
IV.	Performance Criteria	6
	A. Loan-to-Deposit Ratio	7
	B. Lending in Assessment Area	7
	C. Lending by Borrower Income and By Business Revenue	9
	D. Geographic Distribution of Loans	12
	E. Response to Complaints	15
V.	Compliance With Anti-Discrimination Laws and Regulations	15
VI.	Appendix A – Glossary of Terms	16

## **GENERAL INFORMATION**

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the Community Reinvestment Act (CRA) performance for **North County Bank** by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **June 29, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

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

### **Basis for rating**

North County Bank (NCB) has exhibited a response to the credit needs of the its two assessment areas, San Diego and Riverside, that is commensurate with its financial condition, resources and capacity. Lending levels, measured by its loan-to-deposit-ratio, are reasonable with concentrated volume within the defined markets. The distribution of lending by borrowers of different incomes and businesses of different sizes, as well as the dispersion of lending among the different geographies is generally consistent with the demographics of the assessment area. The Evaluation notes that the bank's lending response in the San Diego assessment area is stronger than that in the Riverside market. This disparity in markets is not inconsistent with the CRA since the San Diego assessment area is the home base of NCB, and represents the institution's largest market in terms of geographies and branches. Riverside County is a market assumed by the bank in conjunction with the acquisition of another institution in the area. Since the acquisition, the bank has added two branch offices, however the defined service area is expansive for the four branch offices the bank currently maintains in the county. While comparatively, Riverside has less lending volume, the dispersion within the market relative to different geographies and borrowers of different incomes is considered reasonable given the assessment area profile, commensurate needs and local competition.

### **DESCRIPTION OF INSTITUTION**

NCB asset size, as of March 31, 1998, was approximately \$293 million. The bank operates a main office, which is located in downtown Escondido, and four branch offices in San Diego County and four branch offices in Riverside County. Its San Diego County branch offices are located in the communities of Kearny Mesa, San Marcos, Poway, and the industrial area of Escondido. The Riverside County branch offices are located in the cities of Banning, Beaumont,

Murrieta, and Temecula. NCB also operates non-branch Loan Production Offices in the city of Orange, California and Seattle, Washington.

NCB is a full service commercial bank that offers a wide range of commercial and consumer banking services to individuals, small and large businesses, governmental entities, financial institutions, and non-profit organizations. The largest category of loans in NCB's portfolio is commercial/industrial loans. This lending includes commercial/industrial equipment, working capital, Small Business Administration (SBA) and other secured or unsecured commercial loans and lines of credit. NCB also offers commercial real estate loans. NCB is a certified SBA lender, originating over \$35.7 million in SBA loans in 1997, and \$3.1 million during the first quarter of 1998. The bank is also an active purchaser of Title 1 home improvement loans. In 1997 and the first quarter of 1998, the bank purchased \$7.5 million in Title 1 home improvement loans. For the same periods, the bank sold \$19.4 million in Title 1 home improvement loans. The following consumer loan products are also offered by the bank: home improvement loans, home equity loans and lines of credit, automobile loans, mobile home loans, credit cards, overdraft protection, and personal secured or unsecured loans.

The previous CRA examination conducted by the Federal Deposit Insurance Corporation (FDIC) on December 9, 1996 rated the bank as satisfactory. The bank has no financial or legal impediments that would hinder its ability to lend.

## DESCRIPTION OF ASSESSMENT AREAS

North County Bank's assessment areas (AA) include the greater portions of San Diego County (San Diego) and Riverside County (Riverside). These contiguous counties are located within the San Diego, California MSA and the Los Angeles-Riverside-Orange, California CMSA, respectively. Combined, the two assessment areas include 319 census tracts. The bank's San Diego market comprises the majority (71%) of the bank's combined assessment area. The following table below depicts the demographic composition by census tracts of the two assessment areas and the combined totals. Details regarding the individual markets of the combined assessment area complement the table illustration.

Income Level	San Diego AA		Riverside AA		Total AA	
	#	%	#	%	#	%
Low	2	1%	2	2%	4	1%
Moderate	29	13%	24	26%	53	17%
Middle	110	49%	45	48%	155	49%
Upper	85	37%	22	24%	107	34%
TOTALS	226	100%	93	100%	319	100%

## SAN DIEGO ASSESSMENT AREA

The San Diego assessment area of NCB includes 226 census tracts, which comprises 51% of the total number of census tracts in San Diego County. The assessment area includes the Interstate 15 corridor, where the majority of the bank's branches are located. The San Diego assessment area boundaries extend from Interstate 8 on the south, northwards along the Pacific coastline to the boundary with Riverside County. It extends east from the northern county boundary to the westernmost edge of the Laguna-Palomar-Julian mountain/forest areas, and southward along the mountains to Interstate 8. The southern boundary of the assessment area runs west along Interstate 8 to the Pacific coast. The following communities are located in the assessment area: Escondido, San Marcos, Vista, Oceanside, Carlsbad, Encinitas, Rancho Santa Fe, Solana Beach, Del Mar, La Jolla, Poway, Ramona, Pauma Valley, Fallbrook, and the North Clairmont/Kearny Mesa area of the City of San Diego. The low- and moderate-income areas within the assessment area are located in seven of these communities.<sup>1</sup>

The demographic composition of the assessment area shows that it is comprised of 2 (1%) low-income census tracts, 29 (13%) moderate-income tracts, 110 (49%) middle-income tracts, and 85 (37%) upper income tracts. The 1990 San Diego County Metropolitan Statistical Area (MSA) median family income was \$39,798, based on 1990 census data.

San Diego County's population is increasing. As of the 1990 census the county had a population of 2,498,016, which showed a 34% increase between 1980 and 1990. Of the 946,240 households in San Diego County in 1990, 477,564 (50.5%) were owner-occupied. The median home value in San Diego County as of 1990 was \$186,159.

The market is oriented towards wholesale and retail businesses, manufacturing and service industries. Information obtained from Dun & Bradstreet indicates there are 25,594 businesses inside the San Diego AA. Of this total, 22,377 (87%) are businesses with gross annual revenues of less than \$1 million. Consistent with the preponderance of small businesses within the assessment area, outside contacts interviewed in conjunction with the examination indicated that small business financing was a major credit need in the area. Only 220 businesses (less than 1%) are located in low-income areas; 3,792 businesses (14.8%) are located in moderate-income areas. The majority of businesses (12,687 for 49.6%) are located in middle-income census tracts.

North County Bank's offices in this assessment area are located along the I-15 corridor in Escondido (2), San Marcos, Poway, and Kearny Mesa.

## RIVERSIDE ASSESSMENT AREA

The Riverside assessment area of NCB includes 93 census tracts, which comprise 75% of the total number of census tracts in Riverside County. The Riverside assessment area includes the entire portion of Riverside County east of the San Geronio and San Jacinto Mountain ranges.

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<sup>1</sup> Communities, which include low- and moderate-income areas, are Escondido, San Marcos, Vista, Oceanside, Fallbrook and the Kearny Mesa Area of the City of San Diego.

The following communities are located within in the assessment area: Temecula, Murrieta, Wildomar, Lake Elsinore, Elsinore Valley, Quail Valley, Sun City, Winchester, Hemet, San Jacinto, Corona, Riverside, Moreno Valley, Perris, Banning, and Beaumont. The low- and moderate-income areas within the assessment area are located in eight of these communities.<sup>2</sup>

The demographic composition of the assessment area shows that is comprised of 2 (2%) low-income, 24 (26%) moderate-income, 45 (48%) middle-income and 22 (24%) upper-income census tracts. One of the two low-income tracts is a tract with no-income, as it consists solely of a prison facility (California Institute for Men – Chino State Prison).

Riverside County's population is increasing. As of the 1990 census the county had a population of 1,170,413, which showed a 76% increase between 1980 and 1990. Of the 483,847 households in Riverside County in 1990, 270,876 (56%) were owner-occupied. The median home value in Riverside County as of 1990 was \$139,100.

The market is oriented towards wholesale and retail businesses, manufacturing, and service industries. Information obtained from Dun & Bradstreet indicate there are 11,312 businesses within the Riverside AA. Of these, 10,178 (90%) were businesses with gross annual revenues of less than \$1 million. Similar to the San Diego assessment area, outside contacts made in conjunction with the examination indicated that small business loans are a major credit need. Only two businesses are located in low-income census areas and 2,942 (26%) businesses are located in moderate-income areas. The majority of businesses in the Riverside AA (4,866 for 43%) are located in middle-income areas and 3,522 (31%) in upper-income areas.

North County Bank's branches in this assessment area are located in the southern portion of Riverside County (Temecula and Murrieta branches) and the far northern portion of the county (Banning and Beaumont branches).

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

In order to evaluate North County Bank's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, examiners analyzed the bank's lending performance. Information from bank management, community contacts, economic and census data were used to formulate the performance context in which the bank's performance was measured.

There are five performance criteria considered under the small bank CRA assessment methodology: the bank's average loan-to-deposit ratio, its percentage of lending within its assessment area, the distribution of lending to borrowers of different income levels and businesses of different sizes, the geographic distribution of its loans within the assessment area, and the bank's responsiveness to complaints regarding its CRA performance. Commercial lending is the bank's largest category of loans, comprising approximately 64% by dollars

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<sup>2</sup> Communities, which include low- and moderate-income areas, are Hemet, San Jacinto, Corona, Riverside, Moreno Valley, Perris, Banning and Beaumont.

outstanding or the bank's lending activity. Consequently, the review focused primarily on the bank's small business lending activity from January 1997 through March 31, 1998.

In addition to small business lending, at the bank's request, consumer lending (including motor vehicle loans, other secured loans, and other unsecured loans) was also reviewed. The bank is active in the home improvement financing market, thus, Home Mortgage Disclosure Act (HMDA) reportable transactions were also considered in the analysis. Consumer lending comprises approximately 8% of the bank's outstanding loan portfolio, although significant in absolute numbers generated. This type of lending was considered in the evaluation; however, the overall rating evaluation was based, largely on the bank's small business and home improvement lending.

The following is a discussion of the bank's performance. A specific discussion of each of the two assessment areas is incorporated under the individual performance criteria as appropriate.

## **LOAN-TO-DEPOSIT RATIO**

The bank's loan-to-deposit ratio compares favorably to the ratios of its national, state and local peer banks. In analyzing the bank's loan-to-deposit ratio, examiners used a quarterly average of the six-quarters from December 31, 1996 to March 31, 1998 to assess the bank's loan volume against total deposits over time. The average loan-to-deposit ratio for the period under review was 78.68%. This ratio shows an increase from the average loan-to-deposit ratio of 75% at the previous evaluation. The ratio fluctuated from a low of 73.24% in the first quarter of 1997, to a high of 83.11% in the first quarter of 1998. The ratios have been significantly higher than the national peer average ratio (71.36% for the review period) and the state peer average ratio (67.02%). The bank's ratio has been moderately higher than similarly situated banks in the local area. Based on its size and products offered, NCB's average loan-to-deposit ratio meets satisfactory standards, indicating the institution is lending at an adequate level.

## **LENDING IN ASSESSMENT AREA**

The bank's responsiveness in lending to businesses and individuals within its two assessment areas meets the standards for satisfactory performance. To determine the level of lending within the assessment areas, examiners reviewed 161 small business loans totaling \$41.1 million, 567 consumer loans totaling \$8.4 million, and 329 HMDA reportable home improvement loans totaling \$10.4 million extended since January 1, 1997.

The following table shows the numbers and percentages of lending inside and outside the combined assessment area by loan types. Overall, by numbers of loans made, the bank's lending showed that 76% of all loans extended were located inside its assessment areas.

**LOANS IN / OUT OF ASSESSMENT AREA  
BY NUMBER OF LOANS**

LOAN TYPE	INSIDE AA		OUTSIDE AA		TOTAL	
	#	%	#	%	#	%
SMALL BUSINESS	121	75%	40	25%	161	100%
CONSUMER	527	93%	40	7%	567	100%
HOME IMPROVEMENT	151	46%	178	54%	329	100%
<b>TOTALS</b>	799	76%	258	24%	1057	100%

The following table shows the loan amounts (in millions of dollars) and percentages of lending inside and outside the assessment area by loan types. Overall, by loan amounts, the bank's lending showed that 70% of all dollars extended went to areas inside its assessment area.

**LOANS IN / OUT OF ASSESSMENT AREA  
BY DOLLARS (IN MILLIONS)**

LOAN TYPE	INSIDE AA		OUTSIDE AA		TOTAL	
	\$	%	\$	%	\$	%
SMALL BUSINESS	\$29.5	72%	\$11.6	28%	\$41.1	100%
CONSUMER	\$7.8	93%	\$0.6	7%	\$8.4	100%
HOME IMPROVEMENT	\$4.6	44%	\$5.8	56%	\$10.4	100%
<b>TOTALS</b>	\$41.9	70%	\$18.0	30%	\$60.0	100%

Lending by numbers and loan amounts showed the highest percentages in the consumer loan category, and the lowest percentages in the home improvement loan category. The lower levels of lending inside the assessment area for home improvement loans is due in part to the large volume of home improvement loans purchased by the bank, and also to the volume of loans generated by loan production offices (LPOs) located outside of the bank's assessment area. The LPOs originate both small business and home improvement loans. The bank's overall volume of lending-related activity within its assessment area (76% by numbers and 70% by dollars) meets satisfactory standards. Given the volume of home improvement loan activity, the specialized nature of the financing, and the bank's deployment strategy that supports ongoing funding of this product which is targeted to individuals of low and moderate-income, the local penetration levels are not of supervisory concern.



## LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE

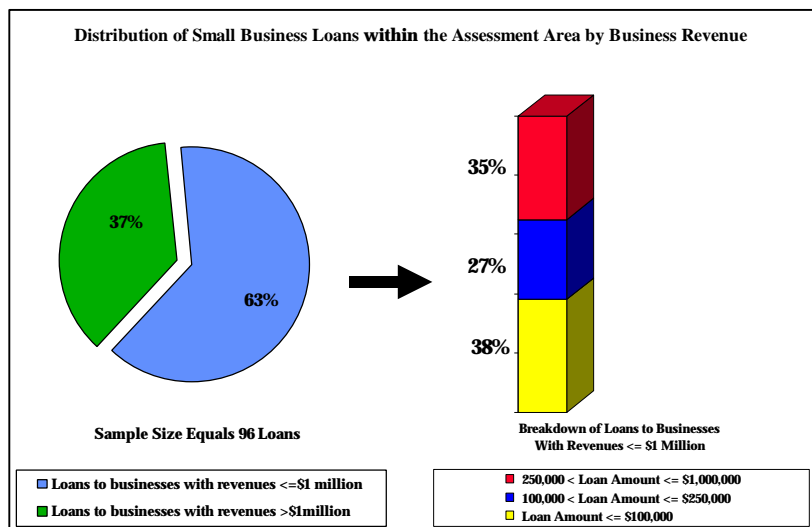
The bank meets standards for a satisfactory performance in this criteria. For the analysis, examiners reviewed a sample of small business loans extended within the assessment area to determine the bank's level of lending to small businesses with \$1 million or less in gross annual revenues. Additionally, examiners reviewed consumer loans and HMDA reportable home improvement loans extended within the assessment area to evaluate the level of lending to low-, moderate-, middle-, and upper-income borrowers.

### Lending to Businesses of Different Sizes

North County Bank is meeting the credit needs of small businesses within its assessment areas. Of the 96 business loans extended within the assessment areas where business revenue was collected, 60 (63%) were made to businesses with gross annual revenues of \$1 million or less. By dollar volume, \$13.9 million (59%) was extended to businesses with gross annual revenues \$1 million or less. These percentages represent increases from the previous evaluation that showed that 54% by number and 43% by dollar volume were made to small businesses. Small business loans were also made in relatively small dollar amounts. Of the 60 loans to small businesses, 23 (38%) had loan amounts at or below \$100,000.

The following chart shows the distribution of small business loans within the combined assessment area by business revenues.

Information obtained from Dun & Bradstreet showed that 87% of the businesses in the San Diego assessment area are small businesses. The loan activity within this assessment area significantly contributed to the bank's overall distribution of loans among businesses of different revenue sizes. In the San Diego assessment area, a majority of



loans (59%) were extended to small businesses. By dollars, \$11,982M (58% of total loan amounts) was extended to small businesses. The percentage of loans in number (59%) represents no significant change when compared to the previous evaluation, which showed 58% by number. However, it is a reasonable percentage given the market and local competition. Moreover, lending to small businesses by dollar volume (58%) shows a significant increase in the loan volume extended to small businesses compared to the 42% noted at the previous examination. Additionally, a crucial sector of the market is being responded to as demonstrated by the percentage of loans (38%) extended in amounts at or below \$100,000. According to outside contacts interviewed in conjunction with the examination, credit needs of start-up entities and other smaller businesses, such as this small dollar financing, are apparent in the community.

Information obtained from Dun & Bradstreet showed that 90% of the businesses in the Riverside assessment area are small businesses. In the Riverside assessment area, although number and volume was less than the San Diego market, 86% of the number of loans was extended to small businesses. By dollars, \$2,058M (68% of total loan amounts) was extended to small businesses. Like the performance in the San Diego assessment area these percentages represent a significant increase over the previous evaluation that showed 43% by number and 46% by dollar volume extended to small businesses. Of the loans extended to small businesses, the majority (58%) was for amounts at or below \$100,000.

The bank's record of lending to small businesses, combined with the percentage of loans extended in amounts of \$100,000 or less, demonstrates that the bank is responsive to the credit needs of businesses of all sizes, including small businesses.

Lending to Borrowers of Different Incomes

For consumer products reviewed, 513 loans were extended in the bank's assessment area. Of these, borrower income characteristics were reviewed for 284 loans totaling approximately \$3.6 million. For the analysis, the assessment area population was divided into four income groups: low-, moderate-, middle-, and upper-income based upon the family income relative to the median income of the Metropolitan Statistical Area (MSA) or Consolidated Metropolitan Statistical Area (CMSA). The population distribution was then compared to the bank's distribution of consumer loans. Borrowers are classified by income level by comparing their income to the HUD-adjusted median family income.

As previously noted, the San Diego assessment area is located in the San Diego MSA. The 1997 HUD-adjusted median family income of \$48,600. The Riverside assessment area is located in the Los Angeles-Riverside-Orange CMSA. The 1997 HUD-adjusted median family income is \$44,800. The distribution of borrowers by income for consumer loans is shown below for each assessment area in the following tables.

Distribution of Consumer Loans by Borrower Income Level <b>SAN DIEGO COUNTY ASSESSMENT AREA</b>					
Income Level	# Loans %		Dollar Amount/Percentage Of Loans		% of Families San Diego AA
LOW	30	15%	\$190,766	7%	14.8%
MODERATE	43	20%	\$332,693	12%	17.3%
MIDDLE	57	27%	\$629,718	23%	22.5%
UPPER	80	38%	\$1,548,127	58%	45.4%
TOTALS	210	100%	\$2,701,304	100%	100%

Distribution of Consumer Loans by Borrower Income Level <b>RIVERSIDE COUNTY ASSESSMENT AREA</b>					
Income Level	# Loans %		Dollar Amount/Percentage Of Loans		% of Families Riverside AA
LOW	7	9%	\$41,184	5%	18.5%
MODERATE	10	14%	\$93,914	11%	17.0%
MIDDLE	16	22%	\$163,145	19%	23.0%
UPPER	41	55%	\$565,298	65%	41.5%
TOTALS	74	100%	\$863,541	100%	100%

The percentage of loans extended in the bank's assessment areas to low- and moderate-income borrowers, in general, compares favorably to the corresponding percentage of low- and moderate-income families.

An evaluation of the individual assessment areas shows the San Diego assessment area with a distribution of loans (measured by number) to borrowers of different incomes comparable to the percentage of the families within the different income sectors of the market. In fact based on the number of loans granted the bank exceeds the percentage of families within the income categories. In terms of dollars originated the profile is generally consistent, as the lower percentage of dollars granted to low- and moderate income individuals represents smaller loan amounts typically supported by such income levels.

In comparison, the consumer lending performance in the Riverside assessment area is generally not as robust as San Diego County. Measured by the number of loans granted, the distribution among borrowers of different income shows a lower level of lending in all of the income categories except the upper-income group when compared to the percentage of families in these geographies. The most apparent disparity is the low-income borrower category, which is attributable to a number of factors:

1. A delivery system comprised of only two offices in communities that include low- or moderate-income areas where the predominant percentage of this population resides. (Banning and Beaumont).
2. Seven and sixth tenths of the families in the Riverside are below the poverty level. These families are included in the overall total for low-income that makes up 18.5% of the total assessment area. The extremity of their economic limitations preclude them from access to credit, particularly unsecured installment and home improvement loans included in the sample.
3. The median housing value of \$139M is above the MSA median and precludes access to low- and moderate-income individuals. Examination data indicates a limited number of low-income homeowners suggested by the fact that less than 5% of the owner-occupied housing has a value of \$ 60M or less. The limited number minimizes the market opportunities for home improvement loans.

4. A preponderance of rental housing in the low- and moderate-income communities where low-income families typically reside negates individual lending requests for home improvement or other real estate secured retail credit. Note: Ninety percent of the housing units in low-income areas and 41% in moderate-income tracts consist of rental units. .

The lower lending in Riverside is mitigated by these factors and the volume generated evidences a reasonable response to the credit needs of the market, including low and moderate-income individuals. Moreover, the nature of facilities granted such as a \$20, 000 line of credit to a childcare consortium that benefits low- and moderate families evidences an awareness and response to identified credit needs. .

Overall, North County Bank’s lending demonstrates a satisfactory distribution of loans to individuals of different income levels.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank’s geographic distribution of lending to geographies of different income levels is reasonable. Examiners analyzed the distribution of small business loans, consumer loans, and HMDA reportable home improvement loans by comparing the number of low-, moderate-, middle-, and upper-income census tracts to the number of loans extended within each of those tracts. The composition of the census tract income levels for both assessment areas and the bank’s combined total assessment areas are depicted in the table below.

#### **CENSUS TRACT COMPOSITION BY INCOME LEVEL**

Income Level	San Diego AA		Riverside AA		Total AA	
	#	%	#	%	#	%
Low	2	1%	2	2%	4	1%
Moderate	29	13%	24	26%	53	17%
Middle	110	49%	45	48%	155	49%
Upper	85	37%	22	24%	107	34%
<b>TOTALS</b>	<b>226</b>	<b>100%</b>	<b>93</b>	<b>100%</b>	<b>319</b>	<b>100%</b>

The distribution of loans by income level for small business, consumer, and home improvement loans are detailed in the following table.

<b>DISTRIBUTION OF LOANS BY INCOME LEVEL OF CENSUS TRACT</b>					
<b>LOAN TYPES</b> By # \$ %	<b>LOW INCOME</b>	<b>MODERATE INCOME</b>	<b>MIDDLE INCOME</b>	<b>UPPER INCOME</b>	<b>TOTALS</b>
# Small Business	0	26	62	33	121
% Sm. Business #	0%	21%	51%	27%	100%
\$ Sm. Business	\$0	\$8,500M	\$11,617M	\$9,365M	\$29,483M
% Sm. Business \$	0%	29%	39%	32%	100%
# Consumer	0	87	212	226	525
% Consumer #	0%	17%	40%	43%	100%
\$ Consumer	\$0	\$1,030M	\$2,573M	\$2,971M	\$6,574M
% Consumer \$	0%	16%	39%	45%	100%
# Home Imprv.	0	14	84	53	151
% Home Imp. #	0%	9%	56%	35%	100%
\$ Home Imp.	\$0	\$426M	\$2,562M	\$1,596M	\$4,584M
% Home Imp. \$	0%	9%	56%	35%	100%
<b>SUMMARY OF ALL LOANS</b>					
Number	0	127	358	312	797
% of Total #	0%	16%	45%	39%	100%
Dollar Amount	\$0	\$9,956M	\$16,752M	\$13,932M	\$40,640M
% of Dollar Amt.	0%	25%	41%	34%	100%
% of Tracts in AA	1%	17%	49%	34%	100%

The preceding chart includes a Summary of All Loans, which shows a loan distribution generally comparable to the distribution of census tracts within the combined assessment area by income levels.

Of particular note, the chart shows no lending in low-income census tracts. The following mitigates supervisory concern regarding the absence of lending:

1. The nominal number of tracts present in the combined assessment areas, 1% or 4 tracts (2 San Diego and 2 Riverside)
2. The limited degree of credit opportunities due to the profile of the individual geographies. For example, of the low-income tracts in the bank's assessment areas, one tract is a no-income tract that consists solely of a prison facility, and hospitals, golf courses, parks, schools and/or military installations occupy the other three tracts. Given this profile, commercial credit activity is limited. Furthermore, credit requests from individuals may emanate from these tracts however they would typically be from those employed in these areas, but who reside elsewhere. Therefore, the documentation of loans emanating from these tracts would be skewed to reflect the areas in which the individuals lived.

3. The low-income borrower profile notes on the previous page which does evidence a satisfactory response to credit needs

The chart also shows that 16% of the number of all loans, and 25% of the dollar amount of all loans were extended to moderate-income geographies. This performance is comparable in number and exceeds, relative to dollars funded, the percentage of moderate-income census tracts within the assessment area.

The remaining profile throughout middle-and upper-income geographies shows lending consistent or better than the percentages of the combined assessment area these tract categories represent.

From a different perspective, the following chart shows that the number of tracts with a lending presence (lending penetration) within the specific census tract income categories is generally consistent with the penetration level for the overall assessment area. As noted previously there were no loans in low-income tracts, however, moderate-income tracts with activity in the assessment area show performance consistent within the penetration of all tracts with the assessment area, and an above average profile for the San Diego market.

When evaluating the San Diego performance in this category, the type of financing also exemplified the above average profile. For example, the bank originated a \$100,000 community development loan to an organization that provides loans and technical assistance to San Diego-based non-profit developers to finance affordable housing and economic development projects. This financing supports credit and related needs disclosed during interviews with community contacts conducted during the examination. The San Diego County assessment area contains 226 census tracts. Loans were made in 162 (72%) of the tracts, with 16 (79%) of the moderate-income tracts penetrated.

The Riverside County assessment area contains 93 census tracts. Loans were made in 42 (46%) of the tracts, with 11 (46%) of the moderate-income tracts penetrated. The following table depicts the loan penetration rates for the assessment areas.

<b>LOAN PENETRATION BY INCOME LEVEL OF CENSUS TRACT</b>					
<b>ASSESSMENT AREAS</b>	<b>LOW INCOME</b>	<b>MODERATE INCOME</b>	<b>MIDDLE INCOME</b>	<b>UPPER INCOME</b>	<b>TOTALS</b>
SAN DIEGO	0%	79%	69%	74%	72%
RIVERSIDE	0%	46%	40%	59%	46%
COMBINED AA	0%	64%	61%	71%	64%

The penetration percentages are lower overall for the Riverside community, however the activity in the moderate-income category is consistent with the penetration percentage for all loans and outranked the middle income category. Additionally, the lower levels of penetration

can be attributed to physical and/or geographic barriers (including airports, prisons, parks, schools, and military installations) identified in ten low- and moderate-income census tracts. The assessment also noted 70 miles between the bank branches in Temecula and Murrieta near the southern portion of the county and the Beaumont and Banning branches in the northern portion of the county. This expansive service market, coupled with the profile of the tracts further explains the lower penetration in the Riverside assessment area.

Notwithstanding lower levels of lending in Riverside, the analysis identified specific loans that directly response to needs in the low and moderate-income sector. Collectively, these factors support the reasonableness of the penetration at this examination.

Overall the assessment results indicate that the dispersion of lending, measured by number of tracts with activity, and volume of loans within income tracts is deemed to be adequate.

## **RESPONSE TO COMPLAINTS**

The bank did not receive any written complaints about its CRA performance during the period under review; therefore, the bank's performance in responding to complaints was not evaluated.

## **COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS**

The bank is in compliance with the substantive provisions of the anti-discrimination laws and regulations such as the Equal Credit Opportunity Act and the Fair Housing Act. While there were violations of the Equal Credit Opportunity Act, they were technical in nature and did not have a discriminatory effect. Moreover, a review of the bank's loan and credit evaluation procedures indicated that no applicants are discouraged from requesting the types of credit offered by the bank. The bank has a secondary review process for declined loans to help ensure the equal treatment of all applicants. The policies, procedures and training programs implemented by the bank adequately support non-discrimination in lending.

The findings with respect to fair lending laws and regulations did not impact the bank's CRA rating.