

PUBLIC DISCLOSURE

June 24, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Verdugo Banking Company
RSSD - 1884140
400 North Brand Boulevard, Suite 900
Glendale, California 91203**

**Federal Reserve Bank of San Francisco
101 Market Street
San Francisco, California 94105**

NOTE: This document is an evaluation of this 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. 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.

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INSTITUTION

INSTITUTION'S CRA RATING: Verdugo Banking Company is rated satisfactory.

Verdugo Banking Company demonstrates a satisfactory level of performance under the Community Reinvestment Act, as measured by the small bank performance criteria. The bank maintains a strong loan-to-deposit ratio and exhibits an excellent penetration into moderate-income geographies. The majority of loans were extended within the assessment area and lending to businesses with gross annual revenues of \$1 million or less was reasonable.

PERFORMANCE CONTEXT

Description of Institution

Verdugo Banking Company (VBC) is a \$155 million bank located in Glendale, California. VBC's primary focus is on commercial lending; however, the bank extends retail credit products as an accommodation to its business customers.

The composition of VBC's loan portfolio as of March 31, 2002 is illustrated below.

Loan Type	Dollar Amount ('000s)	Percent of Total
Commercial/Industrial and Non-Farm Non-Residential Real Estate	\$92,577	77.7%
Consumer	\$12,331	10.4%
Secured by 1-4 Family Real Estate	\$10,465	8.8%
Multifamily Housing	\$2,073	1.7%
Construction	\$716	.6%
Farmland & Agriculture	\$484	.4%
Credit Cards	\$321	.3%
All Other	\$224	.2%
Total (Gross)	\$119,191	100%

There are currently no financial or legal constraints that would prevent the bank from meeting community credit needs consistent with its size, financial capacity, and local economic conditions. The bank was rated needs-to-improve at the prior Community Reinvestment Act examination dated July 30, 2001.

Description of Assessment Area

VBC's assessment area consists of the contiguous cities of Burbank, Glendale, Pasadena, La Canada Flintridge, and the unincorporated area (CDP)¹ of La Crescenta Montrose. The assessment area is part of the Los Angeles-Long Beach Metropolitan Statistical Area (MSA) and is located in the northeastern region of Los Angeles County. The population of Glendale represents 40.3 percent of the total assessment area population. Glendale is a competitive banking market containing 20 banks or thrifts that operate a total of 28 branches.² VBC is ranked seventh in deposit share according to the 2001 FDIC Summary of Deposits report. Based upon the 1990 census, the area's 81 census tracts are broken down by income level as follows.

¹ "CDP" or Census Designated Place is a Census Bureau term for unincorporated areas that are identifiable by name. CDPs are usually associated with an adjacent incorporated area that have no legal status nor elected officials to serve traditional municipal functions.

² Source: FDIC Summary of Deposits 6/30/01.

Income Level	Census Tracts		Population		Families		Households	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Low	2	2.5%	14,103	3.2%	2,830	2.6%	3,992	2.3%
Moderate	15	18.5%	103,973	23.4%	23,555	21.4%	36,707	21.3%
Middle	32	39.5%	182,849	41.2%	44,773	40.7%	75,797	44.0%
Upper	32	39.5%	142,623	32.2%	38,897	35.3%	55,942	32.4%
Total	81	100.0%	443,548	100.0%	110,055	100.0%	172,438	100.0%

Employment and Economic Conditions

Los Angeles County is experiencing a mild recession. However, the diverse economic base and the absence of a high tech industry concentration have moderated the recession. Nevertheless, the economic slowdown is having an impact. The manufacturing, construction, services and trade industries have cut jobs and, as a result, unemployment levels have increased.³ Although unemployment rates are currently below the county levels, rates have continued to increase.

Geographical Area	Average Annual Unemployment 2000 (%)	Average Annual Unemployment 2001 (%)	Monthly Unemployment May 2002 (%)
Glendale	5.1%	5.4%	6.1%
Burbank	3.7%	3.9%	4.5%
Pasadena	4.6%	4.9%	5.5%
La Canada Flintridge	2.0%	2.2%	2.5%
La Crescenta Montrose CDP	2.8%	3.0%	3.4%
Los Angeles County	5.4%	5.7%	6.5%

Business Demographics

Dun & Bradstreet data for the year 2000 shows that small businesses dominate the market. Specifically, there are 26,371 businesses in the assessment area, of which 84 percent have gross annual revenues less than or equal to \$1 million (small businesses). The majority of these businesses have less than nine employees. In addition, the services and trade industries, which are being impacted by the economic slowdown, comprise over 75 percent of the businesses in the assessment area.

³ Source: California Employment Development Department.

Businesses by Size and Income Category					
Tract Income Level	Number of Businesses	Percent of Total Businesses	Gross Annual Revenues <=\$1MM	Percent of Total Businesses with Gross Annual Revenues <=\$1MM	Businesses with Gross Annual Revenues <=\$1MM as a Percent of Total Businesses in Census Tract
Low	915	3.5%	744	3.3%	81.3%
Moderate	6,395	24.3%	5,253	23.6%	82.1%
Middle	11,475	43.5%	9,700	43.6%	84.5%
Upper	7,586	28.8%	6,534	29.4%	86.1%

Businesses by Sector		
Employment Sector	Number of Businesses	Percent of Businesses
Services	13,290	50.4%
Retail Trade	4,899	18.6%
Finance, Insurance and Real Estate	2,663	10.1%
Wholesale Trade	1,530	5.8%
Construction	1,424	5.4%
Manufacturing	1,404	5.3%
Transportation, Communication	791	3.0%
Agriculture	237	.9%
All Other	132	.5%

Conclusions

As detailed above, the current economic slowdown is causing job losses and unemployment to rise. Nonetheless, the mild economic recession does not negate all small business credit opportunities in the assessment area. Given the preponderance of small businesses, along with the bank's willingness to extend credit to different types of businesses, opportunities for lending continue to exist in the assessment area. Moreover, community contacts indicate that small businesses continue to need working capital lines for their operations.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

To evaluate the bank's performance under the Community Reinvestment Act its small business lending was reviewed based upon four of the five performance criteria. These include the following:

- Lending volume in comparison to deposits (Loan-to-Deposit Ratio);
- Lending inside and outside its assessment area (Lending in Assessment Area);
- Distribution of lending to businesses of different sizes (Lending by Business Revenue);
- Dispersion of lending throughout the assessment area (Geographic Distribution of Loans).

Responsiveness to consumer complaints was not evaluated because the bank has not received any CRA-related complaints.

The sample period for the examination was from April 1, 2001 through March 31, 2002. In total, the bank extended 128 small business loans aggregating \$14 million. Only those loans extended inside the assessment area were included in the geographic distribution of loans and lending by business revenue evaluations.

Loan-to-Deposit Ratio

VBC's loan-to-deposit ratio meets the standards for a satisfactory performance. The four-quarter average loan-to-deposit ratio from June 30, 2001 through March 31, 2002, was 83 percent. This loan-to-deposit ratio exceeds the average loan-to-deposit ratios of local peer banks of 68 percent.

Lending in Assessment Area

The level of lending in the assessment area also meets the standards for satisfactory performance. A majority or 50.6 percent of the number of loans were extended within the assessment area. The dollar volume of lending inside the assessment areas was less than majority or 48.5 percent. However, the bank demonstrated its commitment to meeting credit needs within the assessment area by extending two community development loans totaling \$555,000. These loans benefited low- and moderate-income individuals within the bank's assessment area and support the bank's performance in this category.

Lending by Business Revenue

Lending distributions also meet standards for a satisfactory performance. Forty-five percent of all small business loans extended during the review period were to businesses with gross annual revenues not exceeding \$1 million. This lending penetration falls below the percentage

of businesses within the assessment area of 84 percent. However, the performance is more reasonable in light of the aggregate market's performance which extended 41 percent of its loans to small businesses and other performance context issues.

Geographic Distribution of Loans

The distribution of VBC's small business lending exceeds standards for a satisfactory performance. Lending patterns demonstrated an excellent dispersion throughout the assessment area. Lending levels in moderate-income census tracts significantly exceeded percentage of businesses and the percentage of the aggregate market's lending in moderate-income census tracts. While lending did not penetrate the two low-income census tracts in the assessment area, this performance is reasonable given that these census tracts were added to the assessment area during the last month of the review period (March 2002).

The following table displays, by census tract, the distribution of small businesses, VBC's small business loans and the aggregate lending of large banks.

Tract Income Level	Business Concentration	Bank Lending		Aggregate Lending	
		Number	Dollar Volume	Number	Dollar Volume
Low	3.5%	0	0	2.9%	4.3%
Moderate	24.3%	51.6%	42.6%	23.2%	27.5%
Middle	43.5%	29.7%	33.1%	42.4%	41.4%
Upper	28.8%	18.8%	24.3%	31.4%	26.8%

Response to Complaints

Verdugo Banking Company did not receive any complaints relating to its CRA performance during the review period. Accordingly, responsiveness to complaints was not considered in evaluating the institution's CRA performance.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS

The bank is in compliance with the anti-discrimination provisions of the Fair Housing Act and the Equal Credit Opportunity Act. No violations of a discriminatory nature were noted and no issues exist with regard to the bank's compliance with these laws that would negatively impact its CRA rating.

GLOSSARY OF FREQUENTLY USED TERMS

Area Median Income (Median Income)

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

Assessment Area

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

Community Development

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms, which have, gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

Community Development Loan

A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:

- (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and
- (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

Community Development Service	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
Consumer Loans	Loans to one or more individuals for household, family or other personal expenditures. A consumer loan does not include a home mortgage, small business or small farm loan. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
Census Tract	Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.
Family Income	Includes the income of all members of a family that are age 15 and older.
Families	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
Geographies	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
Household Income	Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.
Households	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.

Housing Unit	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.
HUD Adjusted Median Income	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
Income Level	Includes low-income, moderate-income, middle-income and upper-income.
Low-Income	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
Median Income	See Area Median Income and HUD Adjusted Median Income
Metropolitan Statistical Area (MSA)	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.
Middle-Income	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
Moderate-Income	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
Owner-Occupied Housing Unit	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
Qualified Investment	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Real Estate
Mortgage Loan**

Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.

Small Bank

A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

Small Business

Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.

Small Business Loan

Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."

Upper-Income

An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.