

PUBLIC DISCLOSURE

September 9, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**MONARCH BANK
12-06-0572-0000**

**30000 Town Center Drive
Laguna Niguel, California 92677**

**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.

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 of **Monarch Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of September 9, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

INSTITUTION'S CRA RATING:

This institution's overall CRA (Community Reinvestment Act) performance is rated **satisfactory** based upon a review of its provision of credit to its community. Evidence was found during the examination that management had taken an affirmative role in identifying and meeting the credit needs of low-, moderate-, middle- and upper-income individuals, in a manner consistent with its resources and capabilities. However, the bank's lending patterns show that the majority of loans are extended in upper-income areas and no loans were extended in moderate-income areas.

The following table indicates the performance level of **Monarch Bank** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	<u>MONARCH BANK</u> PERFORMANCE LEVELS		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio		X	
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes		X	
Geographic Distribution of Loans			X
Response to Complaints	No complaints had been received during the period under review.		

DESCRIPTION OF INSTITUTION:

Monarch Bank, an unaffiliated institution, has total assets of \$78.6 million as of June 30, 1996, and operates two branch facilities. The main office is located in Laguna Niguel, California, and a second office was opened recently in Laguna Beach, California. Both branches are full service offices offering a variety of competitive loan products, deposit services, and ATM machines. In addition, the bank offers a courier service for business accounts and maintains the only drive-up facility in Laguna Niguel which is open from 7:00 a.m. to 7:00 p.m..

The bank's primary business focus is small business, construction and consumer loans. The bank's strategy is to serve the credit needs of their community. The bank's portfolio mix by dollar amount is comprised of 39% commercial loans, 35% consumer real estate, 17% construction loans, and 4% consumer loans.

Other than the bank's legal lending limits, there are no apparent factors which would impede the bank's ability to help meet local credit needs. The bank's CRA performance was rated outstanding at the previous examination on June 20, 1995.

DESCRIPTION OF *Southern Orange County*:

Monarch Bank has identified its assessment area as the southern portion of Orange County. The area includes the cities of: Laguna Beach, Laguna Niguel, Dana Point, San Clemente, and Aliso Viejo. According to 1990 census data, the population of the area is 169,255, with 55,999 in Laguna Niguel and 24, 416 in Laguna Beach where the branch offices are located. The median family income of the area is \$61,300, and median housing values are \$301,000. The area is comprised of 28 census tracts; none are low-income, 3 are moderate-income, 9 are middle-income, and 16 are upper-income. Although there are no low-income census tracts, there are 5,649 (12.6%) low-income families in the area.

The largest employer is South Coast Medical Center, which employs 650. Most of the 2,500 businesses are retail establishments. A small percentage (3%) of the population is unemployed.

A community representative who was interviewed in conjunction with this examination identified small business loans as the primary credit need.

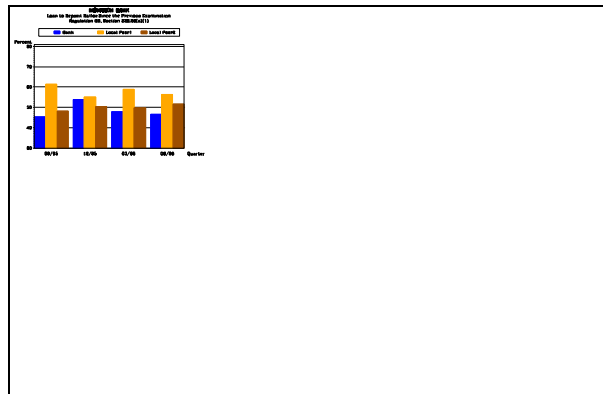
CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

The five major performance criteria considered in the CRA evaluation are the bank's loan-to-deposit ratio, lending in the assessment area, lending to borrowers of different income levels and to businesses of different sizes, the geographic distribution of loans and its

response to complaints.

LOAN TO DEPOSIT RATIO:

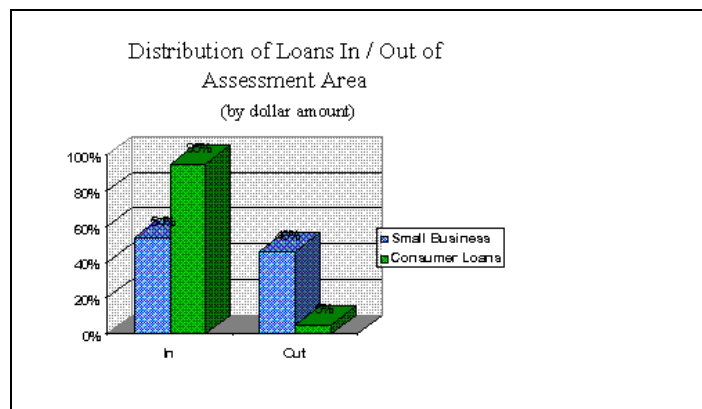
In analyzing the bank's loan-to-deposit ratio, a quarterly average for the quarters from September 1995 through June 1996 was calculated. The bank's loan-to-deposit ratio averaged 48.4%. That ratio was compared to similarly-situated banks within, and outside of, the bank's assessment area. The ratio also was compared with two other similarly-sized banks in the bank's loan-to-favorably with the The average evaluated as



general area. The deposit ratio compared nearest peer at 49.9%. loan-to-deposit ratio is satisfactory.

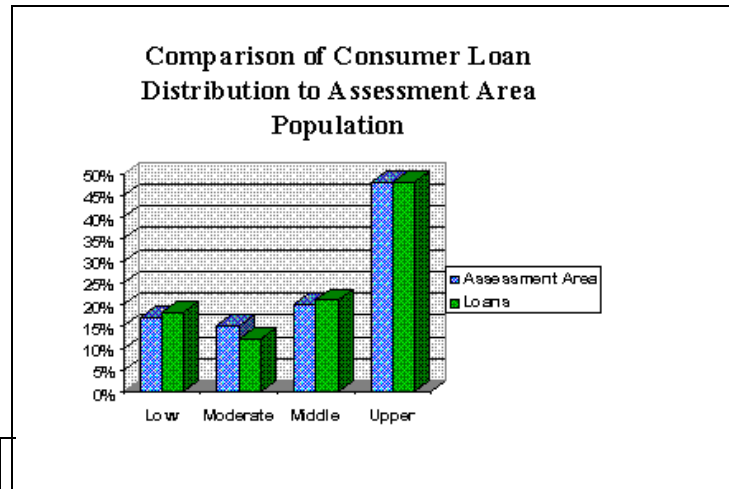
LENDING IN ASSESSMENT AREA:

The bank's lending was evaluated by sampling 35 small business loans totalling \$5,596,626, and 44 consumer loans totalling \$414,663. A geographical analysis was performed using those samples to identify the loans extended outside, the area. The analysis majority of loans within the area. The shows the dollar amount. The are assessed as support the bank's



percentage of inside and assessment shows that the were extended assessment following graph distribution by percentages satisfactory and commitment to

serve its community.



LENDING BY INCOME AND REVENUE:

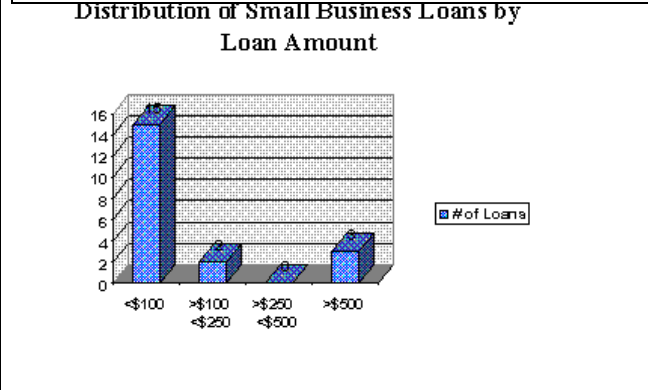
Examiners small business extended within to evaluate the small low, moderate, income

Small Business

BORROWER BY BUSINESS

reviewed a sample of and consumer loans the assessment area extent of lending to businesses¹, and to middle and upper-borrowers.

Loans



Of the 35 small business loans sampled, 20 were extended within the assessment area. In most cases there was insufficient available data to determine the size of the business, therefore loan amount was used as an indicator of business size; loans for less than \$1 million were deemed to be loans to small businesses. Examiners found that all 20 small business loans extended in the assessment area were for amounts less than \$1 million. Moreover, the vast majority of those loans were for amounts less than \$100,000.

¹A small business loan is defined as a business loan for an amount less than \$1 million. A small business is defined as a business with gross annual revenues of \$1 million or less.

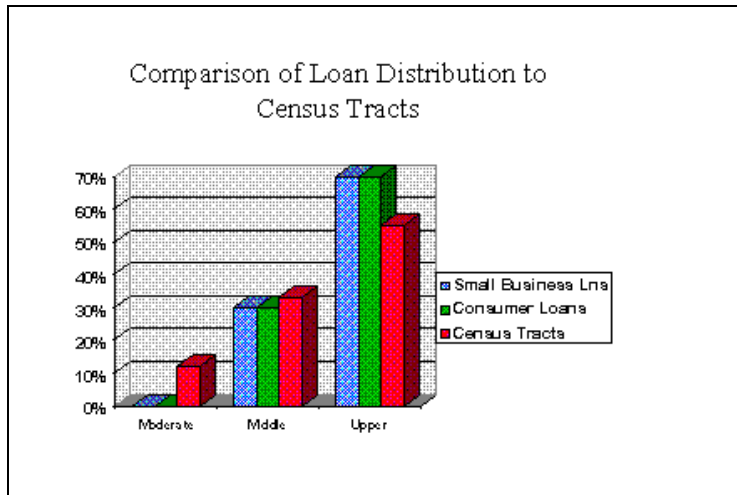
Consumer

Thirty-three
totalling
extended within

area, were reviewed to determine the distribution of loans to borrowers of different income levels. For the analysis, the population is divided into four income groups; low, moderate, middle and upper income, based on the median income of the Metropolitan Statistical Area (MSA). The assessment area is located in MSA 5945, which has a median income of \$61,300.

low income	less than 50% of MSA median income
moderate income	between 50% and 79% of MSA median income
middle income	between 80% and 119% of MSA median income
upper income	120% or more of MSA median income

As shown in the graph below, the distribution of the bank's loans virtually mirrors the distribution of low, moderate, middle and upper-income people in the assessment area.



Loans

consumer loans
\$339,674 were
the assessment

Thirty percent of the assessment area is comprised of low income and moderate income individuals. Likewise thirty percent of the bank's loans were to low- and moderate-income borrowers.

Conclusion

The analysis of both small business loans and consumer loans, demonstrates that the bank has satisfactorily responded to the credit needs of low- and moderate-income borrowers, as well as small business owners.

GEOGRAPHIC DISTRIBUTION OF LOANS:

The bank's geographic distribution of loans was evaluated in the same manner as the lending performance to borrowers of different incomes. The demographics of the community identifying the number of low-, moderate-, middle-, and upper-income tracts were compared to the number of loans extended within each of those tracts.

There are no low-income census tracts within the bank's assessment area. There are (11%) designated as moderate-income, (33%) as middle-income, and (57%) as upper-income. As demonstrated graphically below, for both small business and consumer loans, the majority (70%) of loans were extended in the 16 upper income census tracts and no loans were extended in the 3 moderate-income tracts.

The three moderate-income tracts are numbered: 423.12, 423.13 and 626.24. The combined population of the tracts comprise 12% of the assessment area population. Except for income, the demographics of the moderate-income census tracts do not differ significantly from the rest of the assessment area and there are no distinct characteristics that would affect demand for consumer or business loans. The following table details relevant information about the tracts.

CT#	% Median Income	Pop	Housing Units	% 1-4	% Rental	% Unemployed
423.12	77%	6,092	1,995	98%	30%	4.8%
423.13	73%	6,892	2,998	83%	60%	5.8%*
626.24	70%	8,128	5,517	50%	17%	4.0%

*It should be noted that tract 423.13 has the highest unemployment rate of any tract in the assessment areas and slightly higher than the 4.8% unemployment rate for MSA 5945.

Bank management explained that there is a school, a park and a hospital located in the three moderate-income tracts. However, given the population of the areas, this information does not adequately explain the lack of lending.

The geographic distribution of loans in the assessment area does not meet standards for satisfactory performance.

COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:

The bank is in compliance with the substantive provisions of anti-discrimination laws and regulations such as the Fair Housing Act and the Equal Credit Opportunity Act. While there were some violations of the Home Mortgage Disclosure Act and 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 distribution and credit evaluation procedures indicate that no applicants are discouraged from requesting the types of credit offered by the bank. The bank has on-going fair lending training for its staff and has implemented a secondary review process for declined loans to help ensure equal treatment of all applicants. The policies, procedures, and training programs developed by the bank adequately support non-discrimination in lending.

