

# **PUBLIC DISCLOSURE**

**May 12, 2003**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Rancho Bernardo Community Bank  
RSSD #2583347**

**16945 Bernardo Center Drive  
San Diego, California 92128**

**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:** This institution is rated satisfactory.

The major factors supporting the institution's rating include:

- The loan-to-deposit ratio is reasonable and a substantial majority of loan originations are extended inside the bank's assessment area.
- Small business lending patterns exhibited an adequate dispersion throughout the area with reasonable penetration in low- and moderate-income census tracts, given the small business concentration.
- Loans to businesses with gross annual revenues of \$1 million or less accounted for the majority of the small business loan originations.

## PERFORMANCE CONTEXT

### Description of Institution

Rancho Bernardo Community Bank (RBCB) is a unit bank that opened for business on June 16, 1997. The bank was founded to serve the community of Rancho Bernardo, which is located in San Diego County. Effective April 12, 1999, RBCB became a member of the Federal Reserve System. In October 2000, the bank opened a branch under the name California Community Bank inside a Wal-Mart store. The branch was later closed in October 2002 in an effort to reduce expenditures and increase earnings.

As of December 31, 2002, RBCB's total assets were \$81 million, with loans and leases constituting 83 percent of the total. Strategically, the bank seeks to serve the credit needs of businesses in San Diego County. Consumer loan products are offered primarily on an accommodation basis to existing business customers. The large percentage of construction loans in the portfolio is comprised of loans made to both commercial developers and individual consumer borrowers. The following table reflects the composition of the bank's loan portfolio as reported in the December 31, 2002 Consolidated Report of Condition.

Loan Type	Dollar Amount ('000s)	% of Total
Commercial/Industrial & Non-farm, Non residential real estate	\$30,380	47%
Secured by 1-4 Family Residential Real Estate	\$ 7,903	11%
Commercial Construction & Land Development	\$22,240	35%
Consumer Credit Cards	\$ 1,657	3%
Multifamily Housing	\$ 2,460	4%
All Other	\$ 29	--
<b>Total (Gross)</b>	<b>\$64,669</b>	<b>100%</b>

There are no legal or financial impediments that would inhibit the bank's ability to meet the credit needs of its communities, consistent with its business strategy, size and resources, as well as the local economic climate. RBCB's CRA performance was rated satisfactory at its previous examination conducted as of July 12, 1999.

### Description of Assessment Area

RBCB's assessment area consists of 443 census tracts incorporating the majority of San Diego County with the exception of two tracts on the eastern edge that are sparsely inhabited mountainous and desert areas. San Diego County is the southern-most county in California sharing its southern border with the country of Mexico. Orange and Riverside counties border to the north, and Imperial County neighbors San Diego County on the east.

San Diego County provides a competitive banking environment, with 61 financial institutions operating a total of 514 branch offices. As a unit bank, RBCB ranks 31st out of the 61 institutions

located in the County. Consequently, RBCB maintains a market share of deposits of less than one-third of one percent.<sup>1</sup>

The County is home to a diverse range of industries including, but not limited to, biotechnology, software, electronics, defense, and tourism. In the wake of the ongoing recession, the County's significant high-tech sector has suffered<sup>2</sup>, resulting in layoffs, consolidations, and diminished venture funding to surviving companies. Due to the diverse economic base, however, the economy has remained relatively healthy.<sup>3</sup> This is evident in the fact that the County boasts one of the state's lowest unemployment rates and is one of the few regions in California that is still adding jobs.<sup>4</sup>

The largest sector in the county is services, accounting for 33.5 percent of total industry employment and a significant portion of the small business population. The service sector is diverse, encompassing hospitality, health, and business service industries.<sup>5</sup> Business services, which include management, legal and personnel supply,<sup>6</sup> are the fastest growing segment of the sector.<sup>7</sup> In addition, while the recession and post 9/11 jitters have resulted in a downturn in travel that has hurt the hospitality industry elsewhere, San Diego has escaped relatively unharmed. Local tourism relies more heavily on leisure travelers who live within driving distance.<sup>8</sup> As a result, total visitor spending was expected to dip less than one percent in 2002.<sup>9</sup>

Government and government-related enterprises comprise 17.5 percent, and 18.1 percent respectively.<sup>10</sup> The county incorporates numerous military bases and training depots as well as shipbuilding and repair facilities for the United States Navy and Marine Corps. Federal spending at these government facilities contributes an estimated \$11 billion dollars annually to the local economy.<sup>11</sup> Also, in the wake of the Gulf War and concerns about homeland security, defense-related spending has been and is expected to remain a significant segment in the economy in the near term.<sup>12</sup>

Data provided by Dun and Bradstreet indicates that a majority (67.4 percent) of businesses within the assessment area are small businesses with gross annual revenues of \$1 million or less. With a significant number of businesses located in the assessment area, opportunities for small

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<sup>1</sup> Federal Deposit Insurance Corporation, *FDIC/OTS Summary of Deposits, Market Share Report as of June 30, 2002*, available from [www.fdic.gov](http://www.fdic.gov) (accessed June 27, 2003).

<sup>2</sup> Dickerson, "San Diego..."

<sup>3</sup> Ibid.

<sup>4</sup> Ibid.

<sup>5</sup> California Employment Development Department, Labor Market Information Division, *County Snapshot - San Diego 2002* (California Employment Development Department, 2002.)

<sup>6</sup> SANDAG/Source Point, *San Diego Regional Employment clusters: Engines of the Modern Economy*, August, 2001, No. 1

<sup>7</sup> County Snapshot - San Diego 2002

<sup>8</sup> Marla Dickerson, *San Diego Is On The Rise with Help From Developers, Tech*, Los Angeles Times, January 2, 2003.

<sup>9</sup> Ibid.

<sup>10</sup> Bureau of Labor Statistics, *Précis, Percent of total employment, 2001* (accessed May 2003); available from [economy.com](http://economy.com).

<sup>11</sup> Dickerson, "San Diego..."

<sup>12</sup> Ibid.

business lending are available. Community representatives indicated that lines of credit to small businesses for small dollar amounts of \$50,000 or less are a local area credit need.

According to 1990 census data, middle-income tracts in the county contain the greatest number of businesses. The thirteen unclassified tracts contain the least amount of businesses and consequently have been excluded from this report's analysis. The following table illustrates some of the census data by tract income level.

Income Level	Census Tracts		Dun & Bradstreet Data	
	#	%	#	%
Low	26	6%	6,277	4%
Moderate	94	21%	38,372	22%
Middle	193	44%	74,509	43%
Upper	117	26%	52,956	31%
Unclassified	13	3%	303	-
<b>Total</b>	<b>443</b>	<b>100%</b>	<b>172,417</b>	<b>100%</b>

Despite the recession and the collapse of the high tech sector, San Diego's economy has been relatively resilient. This resiliency is due in large part to increased defense spending and a strong services sector, which employs the majority of the workforce and represents a significant portion of the small business population. Throughout the time period in review, small businesses remained viable. Community representatives indicate an existing demand for small business loans, creating ongoing opportunities for banks that focus on small business lending.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Scope of Examination

The CRA performance of Rancho Bernardo Community Bank was evaluated using the small bank examination procedures. The evaluation was based on the following performance criteria:

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

Responsiveness to consumer complaints was not evaluated because there have been no CRA-related complaints.

The CRA evaluation was based on 185 small business loans extended during the sample period January 1, 2001, through December 31, 2002. Only those loans extended inside the assessment area were included in the geographic distribution and business revenue evaluations.

## Loan-to-Deposit Ratio

The loan-to-deposit ratio meets standards for a satisfactory performance. The eight-quarter average ratio as of December 2002 was 88 percent. Although RBCB is a unit bank servicing a competitive market area, its ratios were comparable to national and state peers, both with averages of 76 percent.

## Lending in Assessment Area

The level of lending in the assessment area exceeds standards for satisfactory performance. A substantial majority, 94.4 percent, of loans were originated within the assessment area. The high concentration of lending within this market was also evident by the dollar volume of loans extended, which was also 94.4 percent.

## Lending by Business Revenue

The extension of small business loans to businesses with revenues less than \$1 million meets standards for satisfactory performance. A majority of the loans originated, 60 percent by number and 59 percent by dollar volume, were to businesses with gross annual revenues of \$1 million or less. This level compares favorably to the representation of small businesses in the assessment area, which is approximately 67 percent. In addition, RBCB's level of lending was notably higher than that of aggregate lenders in the market, which had levels of 41 percent by number and 35 percent by dollar volume. Finally, of the small business loans extended, approximately 41 percent were in amounts of \$100,000 or less, indicating a willingness to meet the needs of small businesses in the area.

## Geographic Distribution of Loans

RBCB's geographic distribution of loans across census tracts of different income levels meets standards for satisfactory performance. Consistent with the distribution of businesses, the majority of small business lending was dispersed throughout middle- and upper-income tracts. Lending in moderate-income tracts was strong, and although the distribution of loans to low-income tracts was lower than the aggregate, performance is adequate given the low percentage of small businesses occupying those tracts.

Tract Income Level	Small Business Concentration	Bank Small Business Lending		Aggregate Small Business Lending	
		#	\$	#	\$
Low	4%	0.5%	0.7%	2.7%	3.5%
Moderate	22%	24.9%	24.7%	19.3%	20.0%
Middle	43%	41.1%	43.4%	47.4%	43.0%
Upper	31%	33.5%	31.3%	30.6%	33.5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### **Response to Complaints**

There were no CRA-related consumer complaints received during the examination period. Accordingly, this component was not used to determine the overall performance rating.

### **Compliance with Fair Lending Laws and Regulations**

No violations of the substantive provisions of the anti-discrimination laws and regulations were identified at this examination. Additionally, there was no evidence of prohibitive lending practices.



## GLOSSARY OF TERMS

**Aggregate lending:** The number of loans originated and purchased by all lenders subject to reporting requirements as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Block numbering area (“BNA”):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

**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.

**Community development:** Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals, activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration’s Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies,

**Consumer loan:** A loan 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. This definition includes the following categories of loans: motor vehicle, credit card, home equity, other secured loan, and other unsecured loan.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married couple family or other family, which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Full review:** Performance under the lending, investment, and service tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution) and qualitative factors (e.g., innovation, complexity).

**Geography:** A census tract or a block numbering area delineated by the U.S. Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (“HMDA”):** The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

**Home mortgage loans:** Include home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Low-income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Limited review:** Performance under the lending, investment, and service tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, branch distribution).

**Market share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all lenders in the MSA/assessment area.

**Metropolitan area:** Any primary metropolitan statistical area (“PMSA”), metropolitan statistical area (“MSA”), or consolidated metropolitan area (“CMSA”), as defined by the Office of Management and Budget, with a population of 250 thousand or more, and any other area designated as such by the appropriate federal financial supervisory agency.

**Moderate-income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent in the case of a geography.

**Middle-income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Optional loans:** Includes any unreported category of loans for which the institution collects and maintains data for consideration during a CRA examination. Also includes consumer loans and other loan data an institution may provide concerning its lending performance.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Small loans to business:** A loan included in "loans to small businesses" as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small loans to farms:** A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500 thousand or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

**Owner-occupied units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

**Upper-income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.