

# **PUBLIC DISCLOSURE**

**October 17, 2005**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**1<sup>st</sup> Pacific Bank of California  
RSSD #2912367**

**7728 Regents Road, Suite 503  
San Diego, California 92122**

**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:

- Reasonable loan-to-deposit ratio;
- Substantial majority of loans originated within the assessment area;
- Reasonable penetration of loans to businesses with gross annual revenues of \$1 million or less; and
- Reasonable geographic distribution of small business loans, with no conspicuous gaps in lending patterns.

## PERFORMANCE CONTEXT

### Description of Institution

1<sup>st</sup> Pacific Bank of California (1<sup>st</sup> Pacific) is an independent community bank that was established in San Diego, California on May 15, 2000. As of June 30, 2005, 1<sup>st</sup> Pacific reported total assets of \$233 million. It operates four full-service branches, three in the city of San Diego and one in Oceanside.

1<sup>st</sup> Pacific is a commercial lender with a focus on providing banking services to small- to medium-size businesses and professionals. The bank prides itself on personalized customer service that complements its credit and deposit products. Commercial products include credit facilities for commercial real estate, working capital, operating lines of credit, accounts receivable, vehicles, equipment, and leasehold improvements. In addition, 1<sup>st</sup> Pacific offers Small Business Administration 504 and 7(a) loans. Other commercial products include business checking and savings accounts, courier, and merchant bankcard services. Growth plans call for leveraging the bank's customer orientation through referrals and continuing to serve existing clients with value-added services.

The bank also offers consumer deposit and loan products primarily to accommodate the personal needs of its business clients. These products include checking and savings accounts, auto loans, and overdraft protection. As of the examination date, ATM services are available at three of the four branch offices.

In the table below, the June 30, 2005, Consolidated Report of Condition and Income shows the loan portfolio composition.

Loan Type	Dollar Amount (000s)	Percent of Total Loans
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$96,200	48.1%
Construction & Land Development	\$74,357	37.2%
Secured by 1-4 Family Residential Real Estate	\$15,460	7.7%
Multifamily Residential Real Estate	\$8,548	4.3%
All Other Loans	\$5,073	2.5%
Consumer Loans & Credit Cards	\$321	0.2%
<b>Total (Gross)</b>	<b>\$199,959</b>	<b>100%</b>

1<sup>st</sup> Pacific faces no legal or financial impediments that would prevent it from helping to meet the credit needs of its assessment area consistent with its business strategy, size, financial capacity, and local economic conditions. The bank received a satisfactory rating at its previous Community Reinvestment Act examination conducted as of October 22, 2001.

## Description of Assessment Area

The assessment area consists of San Diego County in its entirety. San Diego County, also known as the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (41740), is on the southern-most coast of California. The California Department of Finance estimates San Diego County's 2005 population to be more than three million.<sup>1</sup> Carlsbad, National City, San Diego, and San Marcos are the county's principal cities.

The following table shows the distribution of census tracts, population, and families in San Diego County, according to the 2000 U.S. Census. The majority of the census tracts are middle- and upper-income and most families reside in these tracts.

2000 Census Tract Income Level	Census Tracts		Population by Census Tract		Families by Census Tract	
	Number	Percent	Number	Percent	Number	Percent
Low	48	7.9%	218,837	7.8%	44,733	6.7%
Moderate	136	22.5%	688,126	24.5%	148,992	22.3%
Middle	228	37.7%	1,054,124	37.5%	251,776	37.6%
Upper	190	31.4%	844,405	30.0%	223,601	33.4%
Unknown	3	0.5%	8,341	0.3%	0	0%
<b>Total</b>	<b>605</b>	<b>100%</b>	<b>2,813,833</b>	<b>100%</b>	<b>669,102</b>	<b>100%</b>

San Diego County is a competitive market for financial services with 1<sup>st</sup> Pacific holding a very small portion of the market share. Deposits are concentrated among four large national or regional institutions that collectively hold 61 percent of the market share. As of June 30, 2004, 1<sup>st</sup> Pacific held \$151 million in deposits which represented 0.4 percent of the market share and ranked 27<sup>th</sup> out of 67 banks and thrifts operating 539 offices in the area.<sup>2</sup> The market for business credit also is competitive. A total of 205 lenders vied for small business loan originations in San Diego County in 2004.<sup>3</sup>

## Business and Economic Conditions

The San Diego economy is among the strongest in the country. During the two-year period ending December 31, 2004, unemployment in the county fell approximately 11.4 percent to 3.9 percent, while the Gross Metro Product grew approximately 4.2 percent.<sup>4</sup> The Coronado Naval Base, The University of California at San Diego, and Sharp Healthcare were the largest employers with a combined total of over 66,000 payrolls. Accordingly, the military and Federal Government were the largest industry employers, followed by traveler accommodation and

<sup>1</sup> California Employment Development Department, Labor Market Information by Geography, County Snapshot - San Diego County 2004; (accessed November 8, 2005) available at <http://www.labormarketinfo.edd.ca.gov/>.

<sup>2</sup> Federal Deposit Insurance Corporation, Market Share and Bank Holding Company, *Summary of Deposits Market Share Report*, June 30, 2004; (accessed September 30, 2005) available at <http://www3.fdic.gov/sod>.

<sup>3</sup> Information based on 2004 aggregate data consisting of institutions required to file annual CRA data.

<sup>4</sup> *Precis METRO: San Diego* (West Chester, Pennsylvania: Economy.com, August 2005).

scientific research and development services. However, small businesses represent a very significant component of the local economy. As shown in the exhibit below, Dun & Bradstreet reports that businesses with gross annual revenues of \$1 million or less accounted for 87 percent of all businesses in the county. According to community contacts, microloans and other credit facilities designed for early stage and expanding small businesses represent a significant credit need. These loan facilities can help fill the temporary funding gaps which can accompany expansionary periods.

Although San Diego benefited from a robust economy, the supply of affordable housing continued to fall. Housing prices soared during the two-year period ending June 2005, and housing affordability was nearly at an all-time low. This is evidenced by the Housing Affordability Index (HAI), a ratio that calculates the percentage of households in a given area that can afford to purchase a median-priced home. According to this index, in June 2005, the HAI for San Diego was 9 percent, a 10 percent decline from the year ago period when the ratio equaled 10 percent. In contrast, the HAI for the United States equaled 54 percent for the June 2005 period. For the year ago period ending June 2005, the cost of a median priced home increased 5.8 percent from \$580,670 to \$614,120. Based on these factors and feedback from community representatives, the increase in home prices has led to a continuing need for affordable housing construction and other efforts designed to increase the supply of these dwellings.

Income Categories	Total Businesses by Census Tract		Businesses by Census Tract and Revenue Size <sup>5</sup>					
			Less Than or Equal to \$1 Million		Greater Than \$1 Million		Revenue Not Reported	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Low	6,003	5.0%	5,163	5.0%	538	5.0	302	6.9
Moderate	26,894	22.5%	23,360	22.4%	2,467	22.9	1,067	24.3
Middle	45,144	37.8%	39,455	37.9%	4,046	37.5	1,643	37.4
Upper	41,266	34.6%	36,160	34.7%	3,738	34.6	1,368	31.1
Unknown	32	0.0%	15	0.0%	5	0.0	12	0.3
<b>Total</b>	<b>119,339</b>	<b>100%</b>	<b>104,153</b>	<b>100%</b>	<b>10,794</b>	<b>100%</b>	<b>4,392</b>	<b>100%</b>
<b>Percentage of Total Businesses:</b>			<b>87.3%</b>		<b>9.0%</b>		<b>3.7%</b>	

<sup>5</sup> Information based on 2004 Dun & Bradstreet data.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Scope of Examination

The CRA performance was evaluated using the small bank examination procedures. The evaluation was based upon the following performance criteria:

- Loan 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 with different revenue sizes (Lending by Business Revenue).
- Dispersion of lending throughout the assessment area (Geographic Distribution of Loans).

Responsiveness to consumer complaints was not evaluated since the bank received no CRA-related complaints during the review period.

The CRA performance review was based on small business loans originated between July 1, 2003, and June 30, 2005. The 201 small business loans originated during the review period were used to evaluate *Lending in Assessment Area*, *Geographic Distribution of Loans*, and *Lending by Business Revenue*.

### Loan-to-Deposit Ratio

The loan-to-deposit ratio is reasonable and meets standards for satisfactory performance. The eight-quarter average is 97 percent and is above the state average and national peer ratios at 79 and 81 percent, respectively. Local peers range from 74 percent to 176 percent.

### Lending in Assessment Area

The concentration of loans extended inside the assessment area exceeds standards for satisfactory performance as a substantial majority of the loans were originated within these boundaries. The distributions of small business loans extended within the assessment area were 89 percent and 90 percent by number and dollar volume, respectively.

### Lending by Business Revenue

Lending patterns demonstrate a reasonable penetration among businesses of different sizes. Lending to small businesses (46 percent) was below the concentration of small businesses in the area (87 percent) but was above that of the aggregate market, which extended 39 percent of its loans to these businesses.

## Geographic Distribution of Loans

Geographic distribution of small business loans meets standards for satisfactory performance. Generally, the bank's activity reflects adequate dispersion among all income tracts within the assessment area. Although small business lending is below the distribution of businesses and aggregate lending in low- and moderate-income tracts, given the location of the bank's branches these distributions are considered reasonable. Consistent with the bank's referral based marketing efforts, loans were primarily extended near branch offices with no conspicuous gaps in lending patterns. 1<sup>st</sup> Pacific operates in a highly competitive market and competes with a variety of larger bank and nonbank institutions with larger branch networks.

2000 Census Tracts	Business Concentration	Small Business Loans		Aggregate Small Business Loans
		Number	Percent	
Low	5.0%	6	3.4%	4.0%
Moderate	22.5%	26	14.5%	19.3%
Middle	37.8%	72	40.2%	38.3%
Upper	34.6%	75	41.9%	38.4%

## Response to Complaints

1<sup>st</sup> Pacific received no complaints since the previous examination. Accordingly, this component was not reviewed to determine the overall performance rating.

## Fair Lending or Other Illegal Credit Practices Review

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 reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

**Census tract:** A small subdivision 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. Census tracts 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:** All Agencies have adopted the following language. Affordable housing (including multifamily rental 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize:

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved non-metropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on:
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Consumer loan(s):** A loan(s) 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: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

**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-scope review:** Performance is analyzed considering performance context, quantitative factors (for example, geographic distribution and borrower distribution), and qualitative factors (for example, responsiveness).

**Geography:** A census tract delineated by the United States 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 (for example, approved, denied, and withdrawn).

**Home mortgage loans:** Includes 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.

**Limited-scope review:** Performance is analyzed using only quantitative factors (for example, geographic distribution and borrower distribution).

**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.

**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 reporting lenders in the metropolitan area/assessment area.

**Metropolitan area (MA):** A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

**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.

**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.

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

**Other products:** Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include 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.

**Rated area:** A rated area is a state or multistate metropolitan area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate metropolitan area, the institution will receive a rating for the multistate metropolitan area.

**Small loan(s) to business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

**Small loan(s) to farm(s):** 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 \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**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.