

# **PUBLIC DISCLOSURE**

**February 16, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Regency Bank  
665575  
7060 North Fresno Street  
Fresno, California 93720**

**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.*

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## **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 CRA performance for **Regency Bank** prepared by the Federal Reserve Bank of San Francisco, the institution's supervisory agency, as of **February 16, 1999**. 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:** Regency Bank is rated satisfactory.

### **Basis for rating**

The bank's satisfactory performance is based on its record of addressing the credit needs of its community. Its overall lending record demonstrates a majority of activity within the defined assessment area, while the geographic distribution of lending shows a reasonable penetration in all types of census tracts. In addition, the lending dispersion among businesses of different sizes is adequate in comparison to assessment area demographics. Considering the bank's target market of high net worth professionals, its record of lending to small businesses was responsive to the need for business loans in small dollar amounts.

## **PERFORMANCE CONTEXT**

### **DESCRIPTION OF INSTITUTION**

Regency Bank is a \$231 million community bank headquartered in Fresno, California with three branches, two in Fresno and one in Madera. A loan production office (LPO) is located in Modesto, California, outside of the bank's assessment area. While the bank is primarily a commercial lender focusing on the professional market, its focus is expanding to include a broader range of small business owners, primarily through Small Business Administration (SBA) financing. A review of the bank's loan portfolio as of December 31, 1998, shows that it is primarily a commercial lender. The composition of the portfolio is as follows:

<b>Loan Type</b>	<b>Percent of Total Loans</b>
Commercial, Industrial, and Non-Farm Non-Residential Real Estate	66.0%
Construction Loans	16.7%
Loans Secured by 1-4 Family Residential Property	11.9%
Consumer Loans	2.5%
All Other	2.9%

The bank faces strong competition from local branches of statewide financial institutions as well as community banks located throughout its assessment area. Nevertheless, there are no legal or financial impediments that would prevent the bank from meeting the community's credit needs consistent with its size, resources, financial capacity, and local economic conditions.

This was the bank's first examination under the revised CRA regulation. The Federal Deposit Insurance Corporation (FDIC) previously assessed the bank's CRA performance as satisfactory, as of June 6, 1995.

### **DESCRIPTION OF ASSESSMENT AREA**

The bank's assessment area consists of portions of Fresno and Madera counties. These counties comprise the Fresno Metropolitan Statistical Area (MSA) 2840. The bank's assessment area

encompasses the census tracts that comprise the metropolitan Fresno/Clovis area, and the central portion of Madera county that includes the cities of Madera and Chowchilla. The Madera county area is home to many individuals who commute to work in the Fresno metropolitan area.

Having a population of 555,279, the assessment area encompasses 103 census tracts (approximately 70 percent of the MSA total) consisting of 7 low-income (6.8 percent), 25 moderate-income (24.3 percent), 40 middle-income (38.8 percent), and 31 upper-income (30.1 percent). In terms of tract composition, low-income families predominately reside in middle- and moderate-income census tracts. The assessment area distribution of families is 22.5 percent low-income, 16 percent moderate-income, 19.3 percent middle-income and 42.2 percent upper-income, with 16 percent of all families living below the poverty level. The median family income is \$31,037, which is slightly above the MSA of \$30,012 and significantly lower than the state median of \$40,559.

The Fresno MSA has somewhat below-average per-capita incomes and high unemployment relative to other areas of the state, partly due to the large number of relatively low-paying seasonal jobs in agriculture and food processing industries in the region. According to data from the California Employment Development Department, 18 percent of the civilian workforce is employed in either agricultural production or agricultural-related services.

Business establishments total 17,912 in the assessment area. Small businesses constitute a significant amount of the businesses in the county, with 88.5 percent of all businesses reporting gross annual revenues of less than \$1 million. These figures and comments made by community contacts indicate that the primary credit need among these businesses is financing in amounts of \$100,000 or less. In addition, financing for businesses that are new or without track records is a significant credit need.

Dun & Bradstreet data, which identifies the number of businesses in each census tract, shows the highest concentration of small businesses located within the assessment area are in middle-income census tracts, 38 percent, closely followed by upper-income census tracts at 33 percent, and moderate-income at 22 percent. The data also indicates that fewer lending opportunities exist in low-income census tracts, with only 6 percent of all businesses located in these tracts.

The bank currently operates three full-service branches in the cities of Fresno and Madera. With 30 banks and savings institutions totaling approximately \$5.9 billion in deposits in the Fresno MSA, Regency Bank's market share is 3 percent.<sup>1</sup>

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<sup>1</sup> Federal Deposit Insurance Corporation Summary of Deposits, Offices and Deposits of all FDIC-Insured Institutions, June 30, 1998.

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

Regency Bank's performance was evaluated using the Small Bank CRA Examination Procedures. The bank's performance was evaluated based on its loan volume in comparison to its deposits (Loan-to-Deposit), its level of lending inside and outside its defined assessment area (Lending in Assessment Area), the distribution of lending to businesses of different sizes (Lending by Business Revenue), and lending dispersion in the geographies within the assessment area (Geographic Distribution of Loans). A fifth criteria, the bank's responsiveness to consumer complaints, was not evaluated because the bank received no CRA-related complaints since the previous examination.

The review period for this examination was January 1, 1997 through December 31, 1998, and consisted of a review of the bank's small business loans, as these represent its primary loan product. Although the bank does extend a small number of loans that are reportable under the Home Mortgage Disclosure Act, these are primarily accommodation loans to existing business customers and are not considered a primary product of the bank. As such, they were not considered on this evaluation. The 354 small business loans extended during the review period were reviewed to ascertain the volume of lending within the bank's assessment area; the 292 loans inside the assessment area were used to evaluate the Geographic Distribution of Loans criteria. To assess the bank's lending by business revenue, revenue data was collected for a sample of 135 loans from the 292 loans made in the assessment area. By utilizing only those loans extended inside of the bank's assessment area, examiners evaluated the bank's record of meeting the credit needs of its designated community.

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

Regency Bank's loan-to-deposit ratio (LTD) meets standards for satisfactory performance. The loan-to-deposit ratio is a quick test to determine generally the bank's level of lending activity. This review is achieved by measuring the bank's net loans against its total deposits over time, with the result being analyzed within the bank's performance context. For the past eight quarters, the bank's average loan-to-deposit ratio is 68 percent. During the same time period, peer banks that operate in the same geographic area have average ratios that compare favorably with bank's ratio and range from 63.3 percent to 72.9 percent. In addition, during the past year the bank's LTD ratio has ranged between 70.2 percent and 76.8 percent, with loans increasing 20.6 percent and deposits increasing 15 percent.

In light of the bank's resources and capabilities, coupled with the strong competition from local branches of statewide financial institutions as well as community banks located throughout the assessment area, its loan-to-deposit ratio is reasonable.

## LENDING IN ASSESSMENT AREA

A geographical analysis was made of the small business loans made during the review period to determine what proportion of loans were made inside the assessment area. The following chart illustrates the concentration of small business loans originated during the period of review:

	<b>Number</b>	<b>% by Number</b>	<b>Dollars (000's)</b>	<b>% by Dollars (000's)</b>
<b>Inside Assessment Area</b>	292	82.5%	\$35,912	68.8%
<b>Outside Assessment Area</b>	62	17.5%	\$16,296	31.2%

While the number and dollar volume of loans extended meets the standard for satisfactory performance, there is a considerable difference between the number of loans inside the assessment area versus dollar volume of those loans. The bank is a significant SBA lender, and several large dollar SBA loans were extended out of the bank's LPO, which is outside of its assessment area. The larger percentage of the number of loans inside the assessment area suggests that the bank is making more loans in smaller dollar amounts inside of its assessment area. This lending pattern is consistent with the stated credit needs in its community.

## LENDING BY BUSINESS REVENUE

The bank's distribution of loans reflects a good penetration among businesses of different sizes. Of the 135 small business loans reviewed, 72 (53.3 percent) were to small businesses. In addition, of the 72 small business loans, 55 (60.4 percent) were in amounts less than or equal to \$100,000.

Data from Dun & Bradstreet suggest that 88.5 percent of all businesses in the assessment area are small businesses. The 1997 CRA Aggregate Market Data<sup>2</sup> shows that 36 percent of all small business loans extended in the bank's assessment area were to small businesses. In addition, 90 percent of all small business loans extended are made in amounts of \$100,000 or less. These figures suggest that there is a demand for small business loans in the bank's assessment area.

Community contacts stated that small businesses in the community need loans in small dollar amounts for purposes that include additional working capital and business expansion. By extending a majority of its small business loans in small dollar amounts and for purposes that

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<sup>2</sup> Aggregate Market Data is the total 1997 small business lending activity in the bank's assessment area for those large financial institutions required by the CRA regulation to collect and report lending data.

include those articulated by community contacts, the bank is affirmatively addressing identified community credit needs.

Despite the fact that the bank’s target market is high net worth professionals, a majority of its loans are, nonetheless, to small businesses. As such, its loan distribution shows that the bank is addressing the lending needs of small businesses.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank’s geographic distribution of small business loans reflects an adequate penetration throughout its assessment area. Using data compiled by Dun and Bradstreet, an analysis was performed to determine the geographical distribution of small businesses within the assessment area. Subsequently, a comparison was made between this distribution and the geographical distribution of the bank’s small business loans. The results of the comparison are illustrated below:

	<b>Low Income</b>	<b>Moderate Income</b>	<b>Middle Income</b>	<b>Upper Income</b>
<b>Number of Small Business Loans - (292 loans)</b>	6.2%	16.8%	25.3%	51.7%
<b>Dollar Amount (\$000) of Small Business Loans – (\$35,911)</b>	6.2%	22.5%	31.6%	39.7%
<b>Dun &amp; Bradstreet Data - (17,912 businesses)</b>	6%	22%	38%	33%
<b>Census Tracts in the AA – (103 tracts)</b>	6.8%	24.3%	38.8%	30.1%

As demonstrated in the above table, the bank’s lending is predominately in middle- and upper-income census tracts, with lower lending levels in low- and moderate-income tracts. This distribution is similar to the concentration of both small businesses and census tracts throughout the assessment area. Thus, the small business loan distribution indicates that the bank is adequately extending credit to those areas where small businesses are concentrated.

Additionally, a further analysis of the bank’s lending patterns demonstrates that lending is concentrated around the bank’s branches, with lending activity in all income-levels of census tracts. Lending levels decrease as the geographical distance to a branch increases, regardless of the tract’s income level or concentration of businesses. This dispersion is considered reasonable based on the bank’s limited ability to service geographies that are of considerable distance to its branches.



## **RESPONSE TO COMPLAINTS**

The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints have been received since the previous examination.

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

There were no violations of the substantive provisions of anti-discrimination laws and regulations noted at this examination. The bank has developed policies, procedures, and training programs designed to ensure non-discriminatory lending practices.