

# **PUBLIC DISCLOSURE**

**June 1, 1999**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Bank of Coronado  
711865**

**1190 Orange Avenue  
Coronado, CA. 92118**

**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 **Bank of Coronado** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **June 1, 1999**. 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 is rated Satisfactory.

Bank of Coronado's lending patterns evidenced adequate responsiveness to assessment area credit needs. A majority of the bank's small business loans were granted within the assessment area, and lending patterns exhibited good penetration of assessment area geographies, including low- and moderate-income tracts. Consistent with its business strategy, small-business loans to business with revenues of \$1 million or less accounted for the majority of bank small business loans originated, and the bank originated a substantial percentage of loans in amounts less than \$25,000 meeting an assessment area credit need.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

Bank of Coronado is a \$61 million community bank with two full-service branch offices on Coronado Island and a loan production office in central San Diego. The bank's lending activities focus on providing commercial loan products, particularly SBA loans. Deposit products include traditional savings and time deposit accounts. As reported on the March 31, 1999 Consolidated Reports of Condition and Income ("Call Report"), commercial lending accounts for 78 percent of the bank's portfolio followed by construction lending and residential real estate secured loans. Illustrated below is the distribution of loan products by type from the bank's March 31, 1999, Call Report.

**Call Report Distribution by Loan Type**

| <b>Loan Type</b>  | <b>Dollar Amount<br/>(‘000s)</b> | <b>Percent of Total</b> |
|---|----------------------------------|-------------------------|
| Commercial/Industrial & Non-Farm<br>Non-Residential Real Estate | \$25,489                         | 77.7%                   |
| Secured by 1-4 Family Residential Property                      | \$2,095                          | 6.4%                    |
| Secured by Multi-Family Residential Property                    | \$398                            | 1.2%                    |
| Construction and Land Development                               | \$3,158                          | 9.6%                    |
| Farmland and Agricultural Purpose                               | \$38                             | 0.1%                    |
| Credit Card and Consumer Loans                                  | \$945                            | 2.8%                    |
| All Other   | \$712                            | 2.2%                    |
| <b>Total</b>  | <b>\$32,835</b>                  | <b>100%</b>             |

Bank of Coronado's commercial and SBA lending emphasis results in a developmental program designed to involve the bank in local business communities. In addition to soliciting referrals from existing customers and the directorate, management participates in SBA-sponsored seminars and workshops providing instruction and technical assistance to small businesses. The bank also provides small businesses with similar services through workshops and focus groups sponsored by San Diego area chambers of commerce. As demonstrated above, consumer installment and home equity lines of credit constitute a small portion of the bank's loan portfolio products and the bank offers these products primarily on an accommodation basis to existing business accounts and on a walk-in basis at the main office on Orange Avenue in Coronado.

Bank of Coronado's operates one of its two Coronado branches on the Island's main thoroughfare, Orange Avenue (containing the majority of Island businesses), and the other at a shopping complex on the opposite side of the Island. Both branches offer the full range of the bank's products and services. Financial institutions operate 497 branch offices in the San Diego area with deposits totaling \$25.2 billion. Bank of the Coronado's market share of that total is less than one percent, making it a relatively small presence in the overall market area, but one of

the predominant institutions on Coronado Island.<sup>1</sup> Otherwise, there are no legal, financial or other impediments preventing the bank from meeting the credit needs of its assessment area, consistent with its size, financial condition and local economic conditions. The bank received, at its previous Community Reinvestment Act examination, a satisfactory performance rating.

## **Description of Assessment Area**

Bank of Coronado's assessment area consists of 168 census tracts incorporating the entire City of Coronado and portions of the City of San Diego, all part of the San Diego Metropolitan Statistical Area (MSA). The greater San Diego area is one of California's major urban centers as well as being one of the nation's fastest growing urban areas. The greater San Diego area, including the City of Coronado, incorporates numerous military bases and training depots as well as shipbuilding and repair facilities for the United States Navy and Marine Corps. These facilities contribute to the fact that services constitute the assessment area's largest employer comprising 33 percent of the employed population. Government and government-related enterprises comprise 21 percent of the employed population and retail trade and finance, insurance, and real estate respectively comprise 16 and 8 percent. Consistent with the area's growing economy, 89 percent of businesses operating within the assessment area generate revenues of \$1 million or less.<sup>2</sup> Accordingly, the greatest credit need among these businesses is for small business loans in amounts of \$100,000 or less.

The assessment area's 168 tracts encompass 32 low-income census tracts (19 percent), 44 moderate-income census tracts (26.2 percent), 57 middle-income census tracts (33.9 percent), and 35 upper-income census tracts (20.8 percent). Five of the 32 low-income census tracts, three of the 44 moderate-income tracts and one of the middle-income tracts consist entirely or partially of military bases or facilities. The assessment area's 1990 population totaled approximately 773,000 persons, the largest concentration residing in middle-income tracts (38 percent) followed by moderate-income tracts (29 percent), low-income tracts (18 percent) and upper-income tracts (15 percent). Based upon the assessment area's median income of \$34,139, low-income families comprise 26 percent of assessment area families, moderate-income comprise 20 percent, middle-income comprise 21 percent, and upper-income families comprise 33 percent of assessment area families. Families below the poverty level constitute 12 percent of the assessment area population.

Assessment area housing characteristics and costs limit the availability of affordable housing. Owner-occupied housing units comprise 40 percent and rental units comprise 54 percent of the assessment area's 296,000 housing units. Vacancies account for 6 percent of all units. Moreover, 66 percent of assessment area owner-occupied units cost \$150,000 or more resulting in a median housing value of \$182,868. These factors, in addition to the assessment area's median housing stock age of 33 years as compared to the MSA's median age 20 years, limit the availability of new and affordable housing developments specifically targeted to low- and moderate-income individuals. Also, geographic constraints such as the confining nature of Coronado Island itself

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<sup>1</sup> Federal Deposit Insurance Corporation (FDIC), Summary of Deposits, Offices and Deposits of All FDIC-Insured Institutions with Offices located in San Diego (County), California, June 30, 1998

<sup>2</sup> 1998 Dun & Bradstreet Business Concentration Data.

and the location of large military bases throughout or immediately adjacent to major portions of the bank's assessment area also limit the development of new housing tailored for low- or moderate-income residents. Consequently, affordable housing on Coronado Island, for example, is limited to the conversion of single units located throughout the Island rather than the development of large housing tracts. Homebuyers also purchase older structures on Coronado for the sole purpose of tearing down the existing structure in order to build a larger residence. These factors contribute to a median housing value for Coronado of \$536,000 and limit many of the credit opportunities available to local financial institutions on the Island to construction financing.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

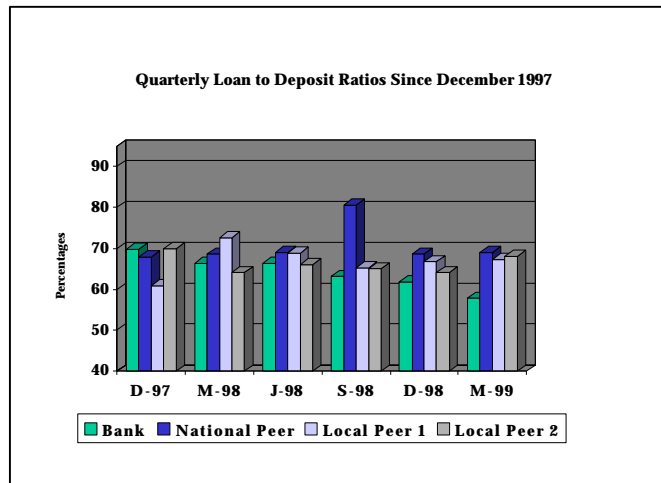
### Scope of Examination

Bank of Coronado's performance under the Community Reinvestment Act was evaluated based upon four of the five performance criteria for small banks. These include loan volume in comparison to deposits (Loan-to-Deposit Ratio), lending inside and outside the assessment area (Lending in Assessment Area), the distribution of lending to borrowers of different income and businesses of different sizes (Lending by Borrower Income and by Business Revenue), and lending dispersion throughout the census tracts within the assessment area (Geographic Distribution of Loans). The bank's responsiveness to consumer complaints was not evaluated because no CRA-related complaints were received since the bank's previous CRA examination. In addition to the five performance criteria, the bank elected to have its qualified investments and services evaluated in conjunction with its overall CRA performance assessment.

The bank's CRA performance was evaluated using total small business lending activity from January to December 1998. The loans were first analyzed to determine the volume of lending within the bank's assessment area. Next, those small business loans extended within the assessment area were used to evaluate the geographic distribution of lending and the lending performance to businesses of different sizes. Examiners evaluated the bank's record of meeting the credit needs of its designated community by evaluating only those loans that were extended inside the bank's assessment area.

### Loan-to-Deposit Ratio

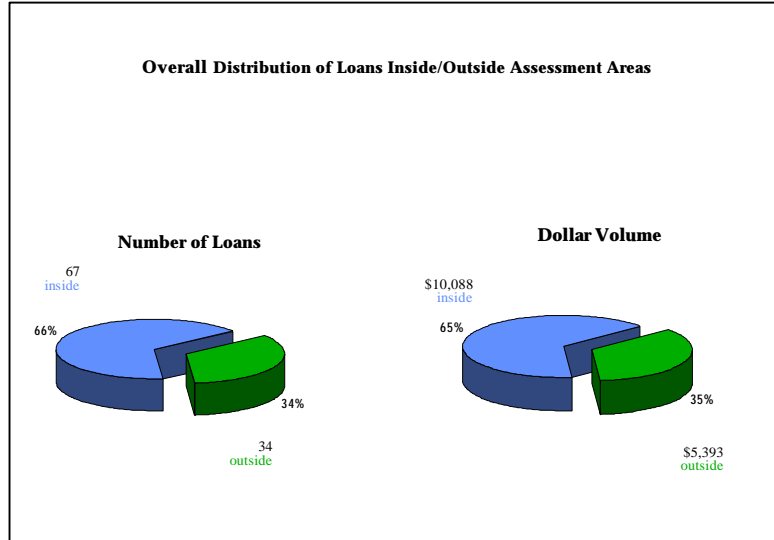
Bank of Coronado's loan-to-deposit ratio reflects a satisfactory degree of lending activity during the sample period. As demonstrated in the accompanying graphic, the bank's loan-to-deposit ratio over the six quarters ending March 31, 1999 (December 1997 to March 1999) ranged from 69.8 percent to 57.8 percent resulting in an average loan-to-deposit ratio of 64.2 percent. Management attributed the ratio's declining trend to banking industry consolidations affecting its



assessment area and, more particularly, on Coronado Island (e.g., the merger of Wells Fargo Bank and First Interstate Bank among others) in conjunction with escrow services offered by the bank. These factors contributed to a large increase in deposit accounts during the review period. In addition, the bank sold approximately \$10.7 million of its loan portfolio in Small Business Administration guarantees during the review period, further affecting the loan-to-deposit ratio.

## Lending in Assessment Area

Small business lending patterns demonstrate that the bank originated the majority of its small business loans within its delineated assessment area. As illustrated, originations with respect to the number of small business loans funded within the assessment area accounted for approximately 66 percent of all loan originations. Similarly, the dollar volume of small business loan originations within the assessment area accounted for approximately 65 percent of all small business loans funded during the sample period.



## Lending by Business Revenue

The bank's small business lending record demonstrates excellent performance in extending credit to businesses of different sizes. As indicated, the majority of assessment area businesses report gross annual revenues of \$1 million or less, and the primary credit need among these small businesses is for operating loans and lines of credit in amounts less than \$100,000 and often in amounts less than \$25,000. Overall lending results indicate that Bank of Coronado extended 49 of its 67 small business loans (73 percent) to businesses with revenues of \$1 million or less. Corresponding loan volume to those same businesses accounted for \$6.8 million of the \$10 million (68 percent) in small business loans originated during the review period.

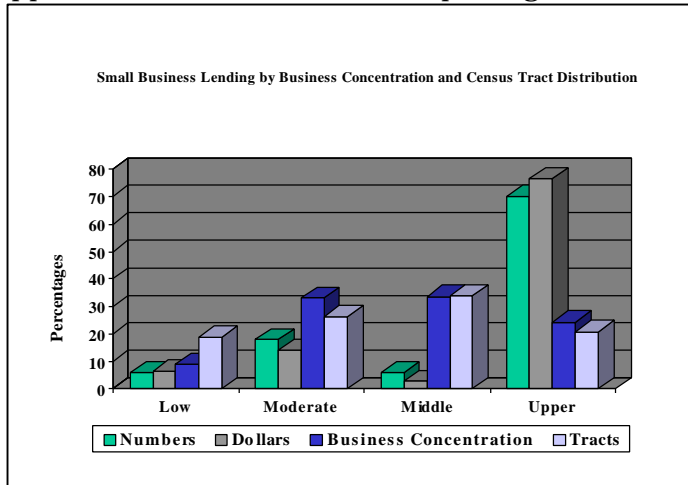
Small business lending to businesses with revenues of \$1 million or less exhibited similar penetrations in individual loan amounts of \$100,000 and less. Seventy-seven percent in number and 70 percent in dollar volume of loans with loan amounts of \$100,000 or less were extended to businesses with revenues of \$1 million or less. Moreover, small business loan originations in amounts of \$25,000 or less accounted for 35 percent (15 loans) of all originations within that category. Additionally, of those 49 loans extended to small businesses, 33 or 67 percent were in amounts less than \$100,000.

## Geographic Distribution of Loans

The bank's small business lending patterns reflect an adequate penetration of assessment area geographies considering the bank's business development strategy and branch locations. Bank of Coronado's new business development focuses primarily on bank involvement in the business communities immediately surrounding their two branch locations and loan production office, referrals from existing customers, and on Small Business Administration lending. As illustrated on the following graphic, the bank's small business lending distribution mirrors the location of the bank's two branches in upper-income census tracts and the location



of its loan production office in a moderate-income tract. Specifically, small business lending concentrations in the middle- and upper-income census tracts encompassing the Island of Coronado reflect the bank's business strategy of involvement in its local community and referrals from existing customers. Similar strategies in conjunction with the emphasis on SBA lending clarifies the concentration of loans in moderate-income tracts situated immediately adjacent to the bank's loan production office. Although business concentrations exist in low- and moderate-income census tracts elsewhere in their assessment area, these strategies achieve satisfactory lending results in meeting the business credit needs of those defined communities consistent with the bank's size and capacity.



### Response to Complaints

Since the previous examination, the Bank of Coronado has not received any complaints relating to its CRA performance. Accordingly, the bank's performance in responding to complaints is not considered in evaluating its CRA performance.

### Compliance with Fair Lending Laws and Regulations

Bank of Coronado substantially complies with fair lending laws and regulations including the Equal Credit Opportunity Act and the Fair Housing Act. Bank of Coronado maintains the necessary fair lending policies and procedures to identify violative practices and provides bank personnel with a systematic fair lending training program.