

# **PUBLIC DISCLOSURE**

**September 9, 2002**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**The Bank of Orange County**

**RSSD # 738367**

**170 South Main Street  
Orange, California 92868**

**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.*

## **TABLE OF CONTENTS**

I.	Institution	1
II.	Performance Context	
	A. Description of Institution	2
	B. Description of Assessment Area	3
III.	Conclusions with Respect to Performance Criteria	
	A. Scope of Examination	6
	B. Loan-to-Deposit Ratio	6
	C. Lending in Assessment Area	6
	D. Lending by Business Revenue	6
	E. Geographic Distribution of Loans	7
	F. Response to Complaints	7
IV.	Compliance with Fair Lending Laws and Regulations	7
V.	Appendix A – Glossary of Terms	8

## **INSTITUTION**

**Institution's CRA Rating:** This institution is rated satisfactory

Bank of Orange County's overall performance under the Community Reinvestment Act (CRA) is satisfactory. The loan-to-deposit ratio is reasonable and a majority of loan originations were inside its assessment area. However, loans to businesses with gross annual revenues less than or equal to \$1 million were low and not responsiveness to community needs. Offsetting this, to some extent, was the geographic distribution of loans. The dispersion of small business loans extended throughout the different census tract income levels of the area was strong, and there were no conspicuous gaps in the lending patterns.

## **PERFORMANCE CONTEXT**

### **Description of Institution**

The Bank of Orange County ("BOC") is a subsidiary of California Community Financial Institutions Fund, which is a subsidiary of the Belvedere Capital Partners, LLC. BOC, a \$316 million community bank, is headquartered in Orange, California, with five additional branches in the cities of Downey, Fountain Valley, Fullerton, Santa Fe Springs, and Torrance. In December 1999, the bank merged with Security First Bank and acquired the Fullerton office. The branches in Torrance and Downey are the result of the July 2000 merger with Calwest Bank. The Santa Fe Springs branch was opened in September 2000. During the examination period, BOC closed an office in Mission Viejo.

During the review period, BOC grew substantially due to its merger activity. Total assets increased 91 percent to \$316 million. The growth in gross loans followed a similar pattern, increasing by more than 100 percent to \$218 million during the merger quarter – growth in other quarters never exceeded 10 percent.

BOC is primarily a commercial lender targeting businesses with revenues less than \$10 million. Though its emphasis is on commercial real estate loans, BOC also offers consumer and real estate mortgage loan products on an accommodation basis to its existing business customers. The lending portfolio as of June 30, 2002, is detailed in the following table.

<b>Loan Type</b>	<b>Dollar Amount (000's)</b>	<b>Percent of Total Loans</b>
Commercial/Industrial and Non-Farm Non-Residential Real Estate	\$173,425	79%
Construction and Land Development	\$ 23,371	11%
Secured by 1-4 Family Residential Real Estate	\$ 11,622	5%
Consumer	\$ 6,198	3%
Multi-Family Residential Real Estate	\$ 3,211	1%
All Other	\$ 388	<1%
Gross Loans	\$218,215	100%

There are no legal or financial impediments that would prevent the bank 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 CRA examination conducted as of June 14, 1999.

## Description of Assessment Area

BOC's assessment area consists of Orange County in its entirety and an adjacent 310 census tracts in southern Los Angeles County. The Los Angeles County portion of the assessment area is comprised of the cities of Artesia, Bellflower, Carson, Cerritos, Downey, Hawaiian Gardens, La Mirada, Lakewood, Long Beach, Norwalk, Paramount, Rolling Hills Estates, Rancho Palos Verdes, Santa Fe Springs, Signal Hill, Torrance and Whittier. The two counties are located along the southern California coast bordered on the south by San Diego County, on the east by Riverside and San Bernardino Counties and on the north by Ventura and Kern Counties. Orange County is the second most populated county in California with a population of approximately 2.8 million. According to the 2000 Census, this figure represents a gain of 18.1 percent over the 1990 Census. Los Angeles County is the most populated county in the state having increased 7.4 percent over the 1990 Census to 9.5 million.<sup>1</sup>

Based upon 1990 census data, there are 794 census tracts in the assessment area. However, 19 of these have unknown median income levels. Therefore, the CRA analysis is based on the remaining 775 tracts. The following table illustrates some of the census data broken down by tract income level.

Income Level	Census Tracts		Population		Families	
	Number	Percent	Number	Percent	Number	Percent
<b>Low</b>	27	3%	168,546	4%	31,377	3%
<b>Moderate</b>	151	20%	884,183	22%	187,890	19%
<b>Middle</b>	329	42%	1,662,673	42%	408,795	42%
<b>Upper</b>	268	35%	1,273,811	32%	347,374	36%
<b>Total</b>	775	100%	3,989,213	100%	975,436	100%

BOC operates in a highly competitive financial services market. As of June 30, 2002, BOC's 0.38 percent market share of deposits ranks it 31<sup>st</sup> out of 108 financial institutions operating 790 offices within the assessment area.<sup>2</sup> The top three performers, with a total market share of 45 percent, are large national banks or savings associations.

## Business Demographics

Dun and Bradstreet data for the year 2000 shows that small businesses dominate the assessment area. Of 182,443 businesses, 153,000 (84 percent) have gross annual revenues less than or equal to \$1 million. Services and retail trade account for over 60 percent of all businesses. Over 76 percent of businesses have less than 10 employees and 62 percent have less than 5.

<sup>1</sup> Source: California Employment Development Department – Labor Market Information Division – County Snapshot

<sup>2</sup> Source: FDIC/OTS Summary of Deposits as of June 30, 2000.

<b>Businesses by Size and Income Category</b>					
<b>Tract Income Level</b>	<b>Number of Businesses</b>	<b>Percent of Total Businesses</b>	<b>Businesses with Gross Annual Revenues &lt;=\$1MM</b>	<b>Percent of Total Businesses with Gross Annual Revenues &lt;=\$1MM</b>	<b>Businesses with Gross Annual Revenues &lt;=\$1MM as a Percent of Total Businesses in Census Tract</b>
<b>Low</b>	8,096	4%	6,582	5%	81%
<b>Moderate</b>	41,723	24%	34,379	23%	82%
<b>Middle</b>	71,906	41%	60,928	41%	85%
<b>Upper</b>	54,032	31%	45,898	31%	85%
<b>Total</b>	175,757	100%	147,787	100%	84%

The table above details the business distributions within the assessment area. Given the large number of small businesses, many opportunities exist for financial institutions to lend to small businesses, especially those with revenues less than \$1 million. Community contacts corroborated that there is a need for small business loans, especially in small dollar amounts of \$100,000 or less. The community contacts further explained that the business climate has improved during the first half of 2002 resulting in an increase in small businesses.

### **Economic Conditions**

The diversity of the assessment area's commercial base has helped to mitigate the recession in 2001. Services, trade, manufacturing, travel/tourism and technology comprise the economic base.<sup>3</sup> As a result, the dot.com fallout and the associated technology downturn of last year exerted only a mild economic influence in the assessment area. The technology slump had a negative impact on semiconductor manufacturing but much of the technology business is tied to the entertainment and film industries, which remained stable. Defense and aerospace spending also helped mitigate the effects of the technology segment's downturn. The real negative impact of the technology downturn was felt in the ports of Southern California where trade fell off 20 percent as a result of decreased Asian-Pacific semiconductor trade. Late in the review period a trade recovery had begun.<sup>4</sup>

Similarly, the events of 9/11 darkened the economic outlook but because of the economy's diversity, the effects were mild compared to what was experienced in Northern California or the manufacturing regions of the Midwest and Southeast.<sup>5</sup> Travel and tourism, affected most severely by the events of 9/11, began to rebound during the latter part of the review period. Business and leisure travel began to increase and price cutting at local attractions bolstered the local tourism market.<sup>6</sup> This recovery has also had a trickle down effect on support businesses such as restaurants and retail, many of which are small businesses.

<sup>3</sup> Source: California Employment Development Department – Labor Market Information Division – County Snapshot

<sup>4</sup> Ibid.

<sup>5</sup> Source: Economy.com, Inc.

<sup>6</sup> Ibid.

## **Conclusions**

The recession of 2001 did slow down the economy; however, due to the diverse business climate of the assessment area the impact was mild. Also, the impacts of the recession and the 9/11 attacks are waning and the first signs of recovery began to appear at the end of the review period. Throughout, small business remained viable and an increase in small businesses was noted by community representatives. Demand for small business loans, then, should have remained commensurately steady, creating ongoing opportunities for banks that focus on small business lending.

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

### **Scope of Examination**

Bank of Orange County's CRA examination was conducted based upon four of the five small bank performance criteria. They are:

- 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 of different sizes (Lending by Business Revenue and Borrower Income); and
- Dispersion of lending throughout the census tracts within the assessment area (Geographic Distribution of Loans).

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

The CRA evaluation was based on 161 small business loans extended during the sample period of July 1, 2000, through June 30, 2002. Only those loans extended inside the assessment area were used to evaluate the geographic distribution and the distribution to businesses with different revenues. Due to limited activity, the home mortgage loans reported in accordance with the Home Mortgage Disclosure Act (HMDA) were not considered.

### **Loan-to-Deposit Ratio**

The loan-to-deposit ratio meets the standard for satisfactory performance. At 80 percent the average loan-to-deposit ratio over the examination period is consistent with national, state and local peer lenders.

### **Lending in Assessment Area**

The concentration of loans granted within the assessment area meets standards for satisfactory performance. Specifically, 80 percent by number and 77 percent by dollar volume were originated within the assessment area.

### **Lending by Business Revenue**

The record of lending to small businesses does not meet the standards for satisfactory performance. At 30 percent by number and 20 percent by dollar, the bank's lending to businesses with revenues less than or equal to \$1 million is less than that of its peers and the performance of other lenders in the market. Additionally, the economic climate of the assessment area, along with the information from local business community contacts, indicates that there is opportunity for such lending.



Of the loans made to businesses with revenues less than or equal to \$1 million, 72 percent were for amounts of less than \$100,000. This lending activity demonstrates a willingness to make the small dollar loans that are a community need. However, it does not overcome the overall lack of lending to this business segment.

### **Geographic Distribution of Loans**

As the following table illustrates, the geographic distribution of small business loans exceeds the standards for satisfactory performance, reflecting an excellent dispersion throughout the different tract levels of the assessment area. The geographic dispersion of small business loans within low- and moderate-income census tracts is strong and significantly exceeds the number of small businesses within the tracts. Also, lending in low- and moderate-income areas surpasses the percentage of loans when compared to the aggregate market.

<b>Tract Level Income</b>	<b>Percent of Tracts</b>	<b>Percent of Small Businesses</b>	<b>Bank of Orange County</b>		<b>Aggregate</b>	
			<b>Number of Loans to Small Businesses</b>	<b>Dollar Volume of Loans to Small Businesses</b>	<b>Number of Loans to Small Businesses</b>	<b>Dollar Volume of Loans to Small Businesses</b>
<b>Low</b>	3%	4%	11%	10%	4%	5%
<b>Moderate</b>	20%	23%	26%	27%	20%	25%
<b>Middle</b>	42%	39%	46%	37%	40%	37%
<b>Upper</b>	35%	30%	16%	22%	35%	28%
<b>Unknown</b>	2%	4%	2%	4%	3%	4%

### **Response to Complaints**

BOC has not received any CRA-related complaints since its previous evaluation. Accordingly, the bank's performance under this category was not evaluated.

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

BOC is in compliance with all substantive provisions of the anti-discrimination laws and regulations. No violations were identified during this examination that would indicate the bank engages in any type of illegal discrimination or discouragement in its lending practices.

## **GLOSSARY OF FREQUENTLY USED TERMS**

### **Area Median Income (Median Income)**

The median family income for the Metropolitan Statistical Area (MSA) if a person or geography is located in an MSA, or the statewide nonmetropolitan median family income, if a person or geography is located outside an MSA.

### **Assessment Area**

A geographic area which generally consists of one or more MSAs or one or more contiguous subdivisions, such as counties, cities or towns. Assessment areas also include geographies in which the bank has its main office, its branches and its deposit taking ATMs, as well as the surrounding geographies in which the bank has originated or purchased a substantial portion of its loans (including home mortgage loans, small business loans, small farm loans, and any other loans the bank chooses, such as those consumer loans on which the bank elects to have its performance assessed).

### **Community Development**

- (1) Affordable housing (including multifamily rental housing) for low- or moderate-income individuals.
- (2) Community services targeted to low- or moderate-income individuals.
- (3) Activities that promote economic development by financing business or farms which have gross annual revenues of \$1 million or less or that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs.
- (4) Activities that revitalize or stabilize low- or moderate-income geographies.

### **Community Development Loan**

A loan that has as its primary purpose community development; and, except in the case of a wholesale or limited purpose bank:

- (1) Has not been reported or collected by the bank or an affiliate for consideration in the bank's assessment as a home mortgage, small business, small farm, or consumer loan, unless it is a multifamily dwelling loan; and
- (2) Benefits the bank's assessment area(s) or a broader statewide or regional area that includes the bank's assessment area(s).

<b>Community Development Service</b>	A service that has as its primary purpose community development, is related to the provision of financial services, and has not been considered in the evaluation of the bank's retail banking services under CRA.
<b>Consumer Loans</b>	Loans 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. Examples of consumer loans are: Motor Vehicle Loans, Credit Card Loans, Home-Equity Loans, Secured Consumer Loans and Unsecured Consumer Loans.
<b>Census Tract</b>	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.
<b>Family Income</b>	Includes the income of all members of a family that are age 15 and older.
<b>Families</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit related to the householder by birth, marriage or adoption. A single person living alone or two or more unrelated individuals occupying the same household are not considered to be a family.
<b>Geographies</b>	Census tracts or numbering area blocks delineated by the U.S. Bureau of Census in the most recent decennial census.
<b>Household Income</b>	Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.
<b>Households</b>	Defined by the U.S. Bureau of Census as all persons occupying a housing unit.
<b>Housing Unit</b>	Includes a house, an apartment, a mobile home, a group of homes, or a single room that is occupied as separate living quarters.

<b>HUD Adjusted Median Income</b>	Based initially on the area median income derived from the most recent decennial census, the Department of Housing and Urban Development adjusts the figure annually for inflation.
<b>Income Level</b>	Includes low-income, moderate-income, middle-income and upper-income.
<b>Low-Income</b>	An individual income that is less than 50 percent of the HUD- adjusted median income or a census tract or block numbering area with a median family income that is less than 50% of the area median income.
<b>Median Income</b>	See Area Median Income and HUD Adjusted Median Income
<b>Metropolitan Statistical Area (MSA)</b>	An area qualifies as an MSA if it contains a city with a population of at least 50,000 or is defined by the Bureau of the Census as an urbanized area and has a population of 50,000 or more and a total metropolitan population of 100,000.
<b>Middle-Income</b>	An individual income that is at least 80 percent and less than 120 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 80 and less than 120 percent of the area median income.
<b>Moderate-Income</b>	An individual income that is at least 50 percent and less than 80 percent of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is at least 50 and less than 80 percent of the area median income.
<b>Owner-Occupied Housing Unit</b>	Includes housing units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.
<b>Qualified Investment</b>	A lawful investment, deposit, membership share, or grant that has as its primary purpose community development.
<b>Real Estate Mortgage Loan</b>	Defined by the Home Mortgage Disclosure Act (HMDA) as a home purchase loan, home improvement loan or the refinancings for both. A home purchase loan is any loan secured by and made for the purpose of purchasing a dwelling. A home improvement loan is for the purpose, in whole or part, of repairing, rehabilitating, remodeling, or improving a dwelling or the real property on which it is located and is classified by the financial institution as a home improvement loan.

**Small Bank**

A bank that, as of December 31 of either of the prior two calendar years, had total assets of less than \$250 million and was independent or an affiliate of a holding company that, as of December 31 of the prior two calendar years, had total banking and thrift assets of less than \$1 billion.

**Small Business**

Businesses with gross annual revenues of \$1 million or less as defined by the Community Reinvestment Act.

**Small Business Loan**

Business purpose loans with original amounts of \$1 million or less as defined by the instructions for the Consolidated Reports of Condition and Income (CALL Report) for entry on schedule RC-C, part II "Loans to Small Businesses."

**Upper-Income**

An individual income that is 120 percent or more of the HUD-adjusted median income, or a census tract or block numbering area with a median family income that is 120 percent or more of the area median income.