

PUBLIC DISCLOSURE

January 18, 2000

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CalWest Bank

RSSD #814261

**23550 Hawthorne Boulevard, Suite 100
Torrance, California 90505**

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 **CalWest Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **January 18, 2000**. 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.

CalWest Bank's satisfactory performance is based on its record of addressing the credit needs of its assessment area. Lending levels are consistent with the bank's size, resources, and capabilities. An adequate number of loans was made inside the bank's assessment area. Its lending to businesses of different sizes compares reasonably to community demographics, and the geographic distribution of lending is reflective of assessment area characteristics and the bank's small business lending focus.

PERFORMANCE CONTEXT

Description of Institution

CalWest Bank is a full service institution that opened in June 1985, under the name Downey National Bank with one office located in Downey, California. In October 1998, CalWest Bank was acquired by Belvedere Capital Partners, Inc., a multi-bank holding company that owns several other financial institutions operating in the state of California. In December 1999 CalWest Bank merged with National Business Bank, one of its affiliate banks. National Business Bank was a de novo institution located in the city of Torrance that had opened for business in November 1998. The merger resulted in a two branch institution with offices in Downey and Torrance. Both branches remain full service offices offering a full range of loan products and deposit services.

According to the bank's Consolidated Reports of Condition and Income (Call Report) assets totaled \$61.1 million as of September 30, 1999, representing an almost six percent increase since that same time period in 1998. Although year-end financial data were not available at the time of this examination, total assets for the merged entity are approximately \$75 million. A breakdown of the bank's loan portfolio as of September 30, 1999, shows the following distribution by product type.

Loan Type	Dollar Amount ('000s)	% of Total
Commercial/Industrial & Non-Farm Non-Residential Real Estate	\$18,368	60%
Secured by 1-4 Family Real Estate	\$5,795	19%
Multifamily Real Estate	\$3,785	12%
Consumer Loans	\$471	2%
Credit Cards	\$27	-----
Construction	\$2,351	8%
All Other	\$4	-----
Total (Gross)	\$30,801	100%

The table above indicates that the bank is primarily a commercial lender. Although the table indicates a significant presence of construction and real estate (secured by 1-4 family and multifamily) credits, the majority of these loans are for commercial purposes. Consumer lending is provided primarily on an accommodation basis to business clients and their affiliates and includes residential mortgage loans, residential construction loans, home equity loans, and auto loans. Consistent with these lending trends, the bank's strategy is to continue addressing the needs in its assessment area through commercial lending products and by providing banking services of all types to small businesses. The bank defines small businesses as those with gross annual revenues up to \$5 million.

Although the bank is situated in a competitive banking environment, there are no apparent 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. At its previous examination dated July 15, 1996, and conducted by the Office of the Comptroller of the Currency, the bank’s CRA performance was rated satisfactory.

Description of Assessment Area

The bank’s current assessment area (AA) includes the cities of Downey, La Mirada, Pico-Rivera, Santa Fe Springs, Norwalk, Signal Hill, South Whittier, Bell Gardens, Bellflower, Commerce, Long Beach and Whittier, all located in the Los Angeles-Long Beach Metropolitan Statistical Area (MSA). The AA is located in the southeastern portion of Los Angeles County, and consists of 188 census tracts. As of the 1990 census, the AA had a population of 1,011,435. The AA median income of \$34,668 is similar to both the county at \$34,965 and the state at \$35,798. The following table shows the distribution of census tracts, population, business entities, and families by income level that were used to develop the context for the performance evaluation.

Income Level	Low	Moderate	Middle	Upper
Census Tract	8%	13%	47%	32%
Population by Census Tract Income Level	7%	20%	49%	24%
Business Distribution by Census Tract Income Level	9%	20%	46%	26%
Family Distribution	21%	18%	22%	39%

Employment data specific to the AA is not available. However, as of December 1999, the unemployment rate in the MSA was 5.2 percent.¹ Statewide, the unemployment rate as of that date was 4.6 percent.² Over the same time a year earlier, the unemployment rate for the MSA was 5.2 percent and the unemployment rate for the state was at 5.5 percent. These unemployment figures suggest that employment in the MSA has remained stagnant at a time when employment conditions have improved elsewhere in the state. Major employers in the MSA include service-producing industries (e.g. transportation, communications, hotels, and business/personal services) and trade industries, both wholesale and retail.³

Small businesses predominate in the AA as shown in the data provided by Dun and Bradstreet (a firm that provides business and credit data) which state that 21,477 or 84 percent of the total businesses operating within the bank’s defined assessment area have gross annual sales of \$1 million or less.⁴

According to contacts made within the community, business credit needs include micro loans to small businesses and technical assistance with regard to business plan preparation and packaging of loan requests. Additionally, the supply of affordable housing and affordable housing loan programs are challenges faced by many of the communities in the AA.

¹ Source: California State Employment Development Department, <http://www.calmis.ca.gov>. (preliminary data).

² *Id.*

³ *Id.*

⁴ These are considered “small businesses” for purposes of the CRA regulation.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Examination

CalWest Bank'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 businesses of different sizes (Lending 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.

To evaluate the bank's CRA performance 55 small business loans extended from January 1998 through September 1999 were reviewed. These loans were first analyzed to determine the volume of lending within the bank's assessment area. Those loans extended within the assessment area were then used to evaluate the bank's lending by business revenue and the geographic distribution of lending. 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.

Because the scope of this CRA evaluation is for the time period prior to the bank's merger with National Business Bank, loan data from National Business Bank was not considered in this review.

Loan-to-Deposit Ratio

CalWest Bank's loan-to-deposit ratio meets standards for a satisfactory performance. This conclusion is primarily based on the fact that the bank's ratio compares reasonably to and lies within the range of the loan-to-deposit ratios of its local peer banks. Specifically, the bank's average loan-to-deposit ratio for the previous eight quarters (December 1997 through September 1999) is 64.2 percent. During this same time period, average loan-to-deposit ratios for local peer banks ranged from 41.9 percent to 81.9 percent.

At 64 percent, the bank's loan-to-deposit ratio indicates ability on the part of the bank to lend, particularly when considered in light of the competitive banking environment in which the bank operates.

Lending in Assessment Area

The level of credit extended inside the bank's defined assessment area meets standards for a satisfactory performance when considered in light of performance context data. The table

below illustrates that a majority of the number of small business loans was extended inside the assessment area while a majority of the dollars was extended outside the AA.

Number of Loans		Dollar Amount of Loans	
% Inside	% Outside	% Inside	% Outside
60%	40%	46%	54%

Many of the loans extended outside the AA were to restaurants, and these loans were generally for a higher dollar amount per loan than were other types of small business loans. Additionally, while many of these business owners reside within the assessment area, the location of their respective restaurants is outside the AA. Additionally, as addressed fully in the following section of this report, much of the bank’s AA small business lending was in small dollar amounts consistent with the stated credit needs of the AA. Given these contextual factors, the bank’s level of lending within the assessment area is reasonable.

Lending by Business Revenue

The bank’s distribution of loans to businesses of different sizes meets standards for a satisfactory performance.

In comparing its lending performance to the credit needs of its assessment area and the level of small businesses within the community, the bank has made a reasonable number of loans to small businesses. Of the 33 small business loans extended in the AA, 60 percent were extended to small businesses. This level of small business lending compares reasonably to the 84 percent concentration of small businesses located in the AA, given that this figure is used as a proxy for potential demand for such type of lending.

Moreover, 70 percent of all loans extended to small businesses were in amounts of \$100,000 or less. The number of loans extended to small businesses in these small amounts demonstrates the bank’s responsiveness to the more critical need for small dollar business loans.

Geographic Distribution of Loans

The geographic distribution of the bank’s small business loans reflects an adequate dispersion throughout the different income geographies in the assessment area when considered in conjunction with assessment area demographics. The table below portrays the dispersion of small business loans by income level of census tract as compared to the distribution of business and census tracts.

	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Number of Small Business Loans	0%	42%	48%	9%
Distribution of Businesses	9%	20%	46%	26%
Census Tracts	8%	13%	47%	32%

As noted in the table above, the bank has no lending in any low-income census tracts. Conversely, the bank has a very high level of lending in moderate-income tracts. When the bank's AA is reviewed in its entirety, middle- and upper-income tracts are fairly evenly dispersed throughout the AA while moderate-income tracts are clustered in the northern portion of the assessment area in close proximity to the bank's office. Low-income tracts also are clustered together, mainly in the cities of Norwalk, Long Beach, and Signal Hill, in the southern portion of the AA. These tracts are all a considerable distance from the bank in an area where numerous other financial institutions are located.

Additionally, an analysis of the bank's lending patterns demonstrates that lending is concentrated around the bank's branch. Lending levels decrease as the geographical distance to its 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 from its branch.

Based upon the bank's small business focus and available lending opportunities, its record of lending within census tracts of different income levels is reasonable.

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

Although the bank's policies affirm its commitment to comply with fair lending laws and regulations, violations of the substantive provisions of anti-discrimination laws and regulations were found at this examination. This violation, however, did not negatively affect the bank's ability to extend credit or the distribution of that credit within its designated assessment area and thus, did not negatively impact the bank's overall CRA performance.