

PUBLIC DISCLOSURE

August 17, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

SOUTHERN CALIFORNIA BANK

12-06-0350-0000

**4100 Newport Place, Suite 900
Newport Beach, California 92660**

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 the 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 Community Reinvestment Act (CRA) performance for **Southern California Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **August 17, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

INSTITUTION

INSTITUTION'S CRA RATING: Southern California Bank's overall CRA performance is satisfactory based upon its lending, investment, and service activities.

The bank's performance under the lending test reflects adequate loan penetration throughout its assessment area and among businesses of different sizes, and an adequate level of community development loans. Similarly, under the investment test the bank's qualified investment and grant activities adequately address the credit and community development needs of its assessment area. Lastly, the bank's delivery systems are reasonably accessible to all portions of the bank's assessment areas.

PERFORMANCE LEVELS	SOUTHERN CALIFORNIA BANK		
	PERFORMANCE TESTS		
	Lending Test*	Investment Test	Service Test
Outstanding			
High Satisfactory			
Low Satisfactory	X	X	X
Needs to Improve			
Substantial Noncompliance			

NOTE: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

Southern California Bank is headquartered in Newport Beach, California and operates 16 full-service branches. Fifteen of its branches are located in the bank's Los Angeles-Orange Counties Assessment Area, with the remaining branch located in its San Diego County Assessment Area. Southern California Bank, a subsidiary of Western Bancorp is the result of two mergers that took place in 1997. During the first half of that year National Bank of Southern California acquired Monarch Bank. During the latter half of 1997, National Bank of Southern California merged with Southern California Bank. The senior management of National Bank of Southern California succeeded to the resultant bank, which assumed the name of Southern California Bank. This examination is the bank's first under the revised CRA.

According to the June 30, 1998, Consolidated Reports of Condition and Income, the bank's total assets were \$904 million, with the distribution of the bank's loan portfolio being as follows:

Loan Type	Dollar Amount (\$000)	% of Total
Secured by Real Estate	\$327,068	51 %
Commercial and Industrial (not secured by real estate)	\$248,235	38%
Credit card and other consumer loans (not secured by real estate)	\$70,085	11%
Other Loans	\$1,935	0%
Total Outstandings	\$647,323	100%

Of the loans secured by real estate, those secured by nonfarm nonresidential properties total \$193 million, or 30 percent of total outstandings. These latter loans, along with the commercial and industrial at 38 percent, represent 68 percent of the bank's total loans, substantiating its emphasis on extending business-purpose credit. Specifically, the bank's target market is small-to medium-sized businesses and the owners and employees of those businesses.

The bank has delineated two assessment areas. One consists of 887 census tracts drawn from the two contiguous counties of Los Angeles and Orange. The other consists of 65 census tracts drawn from San Diego County. Both assessment areas were delineated in accordance with the Community Reinvestment Act regulation in that they consist of entire geographies (including surrounding geographies in which the bank has originated a substantial portion of its loans), do not reflect illegal discrimination, and do not arbitrarily exclude low- or moderate-income geographies that the bank would reasonably be expected to serve.

During the period of review there were no financial or other constraints, including the size and financial condition of the bank, the economic climate, and safety-and-soundness limitations that significantly affected the bank's abilities under the lending, investment, and service tests of the CRA Act Regulation. However, merger activity during this period does play some role, including the broadening of the area of operation from Orange County (an area in which senior management gained expertise from its management of the former National Bank of Southern California) to include portions of Los Angeles and San Diego Counties.

SCOPE OF EXAMINATION

To evaluate the bank's performance under the Community Reinvestment Act, the examiners reviewed the number and breadth of loans extended, investments made, and services provided during the period of April 1, 1997, through June 30, 1998. While the provision of services and investments contribute to the viability of the bank's assessment area, the bank's record of lending is considered more central to that viability. Accordingly, in assessing the bank's performance under the Act, the examiner relies more upon the bank's record under the lending test.

Under the CRA Act regulation, the bank is required to collect data on home mortgage, small-business, small-farm, and community development loans extended or purchased. These data are for use in the assessment of its performance under the lending test. In addition to the data collected on those loans, the regulation allows the bank to submit data on other loans for consideration under the lending test. Exercising this prerogative, Southern California Bank has submitted data on other commercial loans and other non-mortgage consumer-purpose loans for this examination. Below is a breakdown of the loans reviewed for the lending test:

Loan Product	Number of Loans		Dollar Amount (\$000)	
Small Business	842	28%	\$96,877	43%
Other Secured Loans to Benefit Small Business	219	7%	\$65,096	29%
Consumer-purpose	1,995	65%	\$65,939	29%
Total	3,056		\$227,912	

In light of the bank's target market and the dollar predominance of business-purpose loans, more weight was given to the bank's record of business lending than consumer lending.

A full-scope review was conducted of the bank's activities in the Los Angeles-Orange Counties Assessment Area. Of the bank's sixteen branches, fifteen are located in this assessment area. For the remaining San Diego County Assessment Area, a limited scope review was performed to determine if the bank's performance in this area is consistent with its overall performance.

OVERALL CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

LENDING TEST

Southern California Bank's overall performance under the lending test is low satisfactory.

Lending levels reflect responsiveness to assessment area credit needs. During the period of review the bank's loan-to-deposit ratio averaged 76%, with the lowest ratio being 72% for the fourth quarter 1997 and the highest being 79% for the third quarter 1997. Total deposits and net loans remained consistent during the period, but almost doubled fourth quarter 1997 as a result of the merger. The 76% average compares favorably to the state average of 67% for the same time period. Also contributing to the bank's overall performance are the high percentage of loans made within the bank's Los Angeles-Orange Counties Assessment Area and the adequate distribution of those loans throughout that area, by income level of the geographies and to businesses of different sizes. Lastly, although the bank made limited use of flexible loan practices, the bank has made an adequate level of loans addressing community development needs.

Assessment Area Concentration

To determine assessment area concentration, a geographical analysis was made of the loan sample to determine what proportion of loans were made inside the two assessment areas. The following chart illustrates the concentration of the three types of loans originated during the period of review:

	Number Inside	% Inside by Number	Dollars Inside (000's)	% Inside by Dollars (000's)
Small Business	757	90%	\$80,643	83%
Other Secured Loans to Benefit Small Business	169	77%	\$49,925	77%
Consumer-purpose	1,267	64%	\$45,182	69%
Total Loans	2,193	72%	\$175,175	78%

In terms of both number and dollar volume, the significant majority of loans are made within the bank's two assessment areas.

Lending Distribution by Geography

The geographic distribution of business-purpose loans reflects an adequate penetration throughout the bank's assessment areas. This distribution compares favorably to independent data that show the distribution of small businesses in the assessment areas. These data indicate that most small businesses are located in the moderate- and middle-income census tracts of the bank's assessment areas and the distribution of the bank's loans reflect this same concentration.

The distribution of consumer loans is also adequate when considered in light of assessment area characteristics and the bank's lending emphasis.

Lending Distribution by Business Size and Borrower Income

The bank's lending record reflects a good penetration among businesses of different sizes and to borrowers of different incomes. A significant number of the business-purpose loans extended during the period were made to small businesses (i.e., those having gross annual revenues of \$1 million or less). In addition, the bank demonstrated a strong record of lending to low- and moderate-income borrowers.

Community Development Lending

The bank has made an adequate level of community development loans. A total of four community development loans, totaling \$8.2 million, were noted. These direct loans have addressed the creation of affordable housing, the provision of daycare services to low- and moderate-income individuals, and the availability of credit to small businesses. In addition, through participation in consortiums, such as Savings Association Mortgage Company and the California Community Reinvestment Corporation, the bank has helped address affordable housing needs throughout the state.

Innovative and Flexible Loan Practices

The bank makes generally limited use of innovative or flexible lending practices to serve credit needs in its assessment area. However, in the case of certain residential real estate loan applications, the bank's practice is to ease some of the criteria contained in its standard credit underwriting policy in order to promote the availability of affordable housing in its assessment areas.

INVESTMENT TEST

Southern California Bank's overall performance under the investment test is low satisfactory based upon the level of its qualified community development investments and grants. Its record under this test, while neither innovative nor otherwise exhibiting a leadership role, has adequately addressed identified developmental needs in the bank's assessment area.

Investment and Grant Activity

The bank has made an adequate level of qualified community development investments and grants. During the period of review, these investments and grants totaled a little over \$1 million and address the provision of residential credit to low- and moderate-income individuals, the supply of affordable housing, the provision of credit to small businesses, and the support of educational services in low-income areas.

Responsiveness to Credit and Community Development Needs

The bank's investment and grant activity exhibits adequate responsiveness to credit and economic development needs in its assessment areas. Through the purchase of a security backed by mortgages to low- and moderate-income individuals, the bank promotes the availability of credit to such individuals in its assessment areas. Similarly, the bank's grants support organizations addressing fair housing, affordable housing and housing availability in general.

Responsiveness to Community Development Initiatives

The bank has not used innovative or complex investments to support community development initiatives. Nevertheless, the investments funded do address acknowledged credit needs in the bank's assessment area.

SERVICE TEST

The bank's overall performance under the service test is low satisfactory based upon its provision of retail banking and community development services.

Retail Banking Services

The bank's delivery systems are reasonably accessible to essentially all portions of its assessment areas. During the period of review three branches were closed and consolidated with other branches. Of the three branches closed, two were in moderate-income areas and one in a middle-income area. The three branches with which they were consolidated are, respectively, in low-, moderate-, and upper-income areas. All branches are full service branches offering all of the bank's products and services; therefore, the availability of products and services does not vary by location.

Community Development Services

The bank provided a limited level of community development services. Although bank officers are active in social services organizations, few of these activities address affordable housing for or the provision of community development services targeted to low- and moderate-income individuals, or promote economic development by financing small businesses or farms. However, some instances were noted of activities addressing affordable housing and access to credit by small businesses.

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.

ASSESSMENT AREA SUMMARIES

For each assessment area where a full-scope review was performed using the examination procedures.

LOS ANGELES-ORANGE COUNTIES ASSESSMENT AREA

DESCRIPTION OF THE LOS ANGELES-ORANGE COUNTIES ASSESSMENT AREA

This assessment area consists of 887 census tracts, which comprise the whole of Orange County and adjoining portions of Los Angeles County. Of the 887 census tracts, 484 are from Orange County and 403 are from Los Angeles County. The income breakdown of these census tracts is as follows: 40 (5%) low-income, 228 (26%) moderate-income, 370 (42%) middle-income and 249 (28%) upper income. According to the 1990 census, the area had a total population of 4,788,753, with total households of 1,542,351. Of these households, 74% or 1,133,746, are families. The geographic distribution of families among the four income types of census tracts is illustrated below:

	Low- Income Tracts	Moderate- Income Tracts	Middle- Income Tracts	Upper- Income Tracts
Families by Number	30,028	302,476	466,953	334,289
Families by Percentage	3%	27%	41%	29%

As can be seen, the majority of families are located in middle-income census tracts, followed by upper- and moderate-income census tracts. The comparatively low population of families in low-income census tracts suggests that consumer-lending opportunities in these areas are limited. The distribution of families according to the four income categories is indicated below:

	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Families by Number	231,635	210,753	257,511	433,847
Families by Percentage	20%	19%	23%	38%

In addition, eight percent of all families are living below the poverty level. However, information regarding the geographic concentration of such families is not available. The data are available for households and they indicate that 25% of households in low-income tracts, 15% in moderate-income tracts, 7% in middle-income tracts, and 4% in upper-income tracts are living below the poverty level.

During the review period both Los Angeles and Orange Counties recovered from the economic recession brought about by downturns in the aerospace and construction industries. According to a report from the Legislative Analyst Office, "the rate of job growth in Southern

California (defined as Los Angeles, Orange, San Diego, Ventura, Riverside, and San Bernardino Counties) has *doubled*, from 119,000 between 1995 and 1996 to nearly 239,000 over (1997).”¹ The report goes on to state that, for Los Angeles County, the job growth has been in manufacturing, trade, construction, and service-related jobs, particularly motion picture production and business services. Employment increased in this county by 2.8% between the first half of 1997 and the first half of 1998. For Orange County, employment increased by 4.3% for the same period, suggesting that the economy of Orange County is stronger than that of Los Angeles County. The Orange County job growth has been in high technology manufacturing, business services, communications, wholesale trade, and construction.

LENDING TEST

Southern California Bank’s lending activity in the Los Angeles-Orange Counties Assessment Area reflects an adequate responsiveness to the credit needs of this community. A total of 2,214 loans totaling \$372 million were made in the assessment area during the period of review. In addition, \$8 million in community development loans were made addressing affordable housing, the provision of daycare to low- and moderate-income individuals, and the provision of credit to small businesses.

Lending Distribution by Geography

Business-Purpose Loans

The geographic distribution of small-business and other business-purpose loans reflects an adequate penetration throughout the 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 and other business-purpose loans. The results of the comparison are illustrated below:

	Low Income	Moderate Income	Middle Income	Upper Income
Small-business (741 loans)	12% (91)	27% (202)	38% (285)	22% (163)
Other Secured Loans to Benefit Small Business (162 loans)	4% (6)	21% (34)	34% (55)	41% (67)
Dun & Bradstreet Data (68,110 small businesses)	7%	29%	41%	24%

As illustrated by the table, the Dun and Bradstreet data indicate that the majority of small businesses are in the moderate- and middle-income census tracts. The bank’s distribution of small-business loans has a similar concentration, with the majority of the loans also being in the moderate- and middle-income tracts. Thus, the small-business loan distribution would indicate

¹ State and Regional Economic Developments in California (September 1998)

the bank is adequately extending credit to those areas where small businesses are concentrated. The distribution of other business-purpose loans is not as strong as that of the small-business loans, but it does compare favorably to the distribution of businesses.

Consumer-purpose Loans

The following table illustrates the geographic distribution of consumer-purpose loans as compared to the distribution of geographies and the populations within those geographies:

	Type of Census Tract by Income			
	Low- Income	Moderate- Income	Middle- Income	Upper- Income
Consumer-Purpose Loans	2%	12%	42%	44%
Distribution of Geographies	5%	26%	42%	28%
Distribution of Families	3%	27%	41%	29%

The geographic distribution of loans shows that the bank is lending in low- and moderate-income census tracts and that the loan distribution somewhat reflects the distribution of geographies in the assessment area in that there are more loans in moderate-income areas than low-income areas. The apparent low level of lending in low-income census tracts is considered reasonable in light of the fact that only 3 percent of the families in the assessment area reside in these tracts. Although not comparable to either the distribution of census tracts or families within those tracts, the level of lending in moderate-income areas is adequate given the actual lending opportunities available and the bank's focus on extending consumer credit primarily as an accommodation to the owners and employees of its business clients. Accordingly, the preponderance of loans in middle- and upper-income tracts can be explained by the distribution and income level of families in the various geographies, and the accommodation nature of the bank's consumer-purpose lending.

Lending Distribution by Business Size and Borrower Income

Business-Purpose Loans

The bank's distribution of loans reflects an adequate penetration among businesses of different sizes. The number distribution of small business loans is illustrated in the following chart:

	Loan Amount in Thousands			
	□ \$100	\$100 - \$250	\$250 - \$1,000	Total
Number of loans	563	104	74	741
Percentage of Total Loans	76%	14%	10%	100%
Number to Small Businesses	289	49	22	360
Percentage of Category to Small Businesses	51%	47%	30%	49%

Data from Dun & Bradstreet suggest that 86% of all businesses in the assessment area are small businesses and, overall, small businesses comprise a significant proportion of the borrowers receiving loans (49%). In addition, 80% (286 of 360) of those loans extended to small businesses were made in amounts of \$100,000 or less, meeting the identified need for small business credit. Given the bank’s target market of serving small- and medium-sized businesses in its assessment areas, this loan distribution shows that the bank is actively lending to small businesses, particularly in smaller loan amounts.

The distribution of other loans to benefit small businesses is reflected in the table below and is similar to that of the small business loans. As such, it offers further support to the bank’s record of serving small businesses.

	Loan Amount in Thousands			
	□ \$100	\$100 - \$250	\$250 - \$1,000	Total
Number of loans	57	36	68	161
Percentage of Total Loans	35%	22%	42%	100%
Number to Small Businesses	18	25	45	88
Percentage of Category to Small Businesses	32%	69%	66%	55%

Consumer-Purpose Loans

The distribution of borrowers for the consumer-purpose loans is illustrated below:

	Low-Income	Moderate-Income	Middle-Income	Upper-Income
Consumer-Purpose Loans	12%	19%	18%	50%
Distribution of Families	20%	19%	23%	38%

As can be seen, the majority of the bank’s borrowers are upper-income as are the majority of families in the assessment area. The record of lending to low- and moderate-income individuals is good, especially when considering the fact that over 8% of the families in the assessment area live below the poverty level, thereby limiting the lending opportunities.

Community Development Lending

The bank has made a low level of community development loans during the period of review extending only four community development loans totaling \$8.2 million. One loan financed the offering of affordable housing investment tax credits. Another loan financed a daycare center targeted to low- and moderate-income individuals. A third loan financed a small developer of affordable housing. The fourth loan was a line of credit to a small business community development corporation to fund loans to small businesses located in low- to moderate-income

census areas and Enterprises Zones in Orange County. While the number of community development loans is low, they do address the most critical needs in the assessment area.

INVESTMENT TEST

The bank has an adequate level of qualified community development investments and grants. During the period, the bank purchased one security backed by mortgages extended to low- and moderate-income individuals in the assessment area that totaled a little over \$1 million. Due to the high cost of housing in the assessment low- and moderate-income individuals generally cannot afford housing. As a result, mortgage-backed securities consisting of loans to such individuals are not a highly prevalent item in the assessment area. Given the limited supply, there is much competition for such investments. Thus, the bank's purchase represents what is generally available. The bank also made an equity investment of \$10,000 in the Clearinghouse Community Development Financial Institution (CCDFI). CCDFI will be providing direct loans for affordable housing projects and other community development activities. A grant of \$3,000 was provided to the Affordable Housing Clearinghouse, another organization advocating affordable housing. Finally, a grant of \$2,500 was provided to the Fair Housing Council of Orange County (FHCOC) to cover a projected deficit in its operating budget. The FHCOC promotes equal housing access in Orange County, and has a primarily low- and moderate-income client base. Lastly, the bank provides an annual grant of \$3,000 to an elementary school in a low-income area whose student body consists primarily of students living in poverty.

SERVICE TEST

The bank's performance under the service test is reasonable based upon the accessibility of its delivery systems and provision of community development services.

Retail Banking Services

The bank's delivery systems are reasonably accessible to all portions of the assessment area. All fifteen of the branches in the assessment area are full-service, offering all products and services. Of the fifteen branches, two are located in low-income census tracts, three are in moderate-income census tracts, nine in middle-income census tracts, and the remaining branch is in an upper-income census tract. All branches have automated teller machines, with no fees charged by the bank for the use of a non-proprietary ATM. The bank provides 24-hour telephone access to accounts in both English and Spanish. Branch hours are generally 9:00 a.m. to 4:00 p.m. Monday through Thursday, with Friday hours being 9:00 a.m. to 6:00 p.m. Seven of the branches have Saturday hours of 9:00 a.m. to 1:00 p.m. One of the branches in a low-income tract does not have Saturday hours; however, it is located in a predominantly commercial area. One of the branches in the moderate-income census tract also does not have Saturday hours; however, that branch is less than two miles from another branch with Saturday hours, which happens to be located in a moderate-income census tract.

During the period of review, the bank consolidated three branches, of which two were located in moderate-income census tracts and one in a middle-income census tract. The latter branch

was consolidated with another branch in a middle-income tract, less than four miles away. In the case of the two moderate-income branches, one was consolidated with a branch in a low-income tract five miles away, while the other was consolidated with a branch in an upper-income tract nine miles away. Given the proximity of branches consolidated, access to the bank's products and services were not impaired by the branch closings. These consolidations were the result of the merger of Southern California Bank and National Bank of Southern California and were enacted to minimize duplicative operations.

Community Development Services

The bank provides a low level of community development services. Few instances were seen of bank officer involvement in activities promoting community development. One officer sits on the board of the South Whittier Community Housing Corporation, a community housing development corporation with a primary purpose of providing affordable housing to low- and moderate-income individuals. This organization serves the unincorporated area of Los Angeles County, specifically South Whittier, La Mirada, and Santa Fe Springs. In her capacity as board member, the officer has provided expertise regarding financial planning and, under the auspices of the organization, has presented training in the use of bank products to residents of the target area. Another officer sits on the City of Lake Forest Community Development Committee, in which capacity he provides input regarding business retention and promotion in the redevelopment area, and the feasibility of redevelopment plans. Lastly, an officer of the bank participated in a seminar on banking services and obtaining small business credit. This seminar was sponsored by the Orange County Small Business Development Center, an organization with the goal of promoting job creation by providing technical assistance to small and medium sized businesses.

ASSESSMENT AREA SUMMARIES

For each assessment area where a limited scope review was performed using the examination procedures.

DESCRIPTION OF THE SAN DIEGO COUNTY ASSESSMENT AREA

This assessment area consists of sixty-five census tracts drawn from the county of San Diego. One of the census tracts is low-income, five are moderate-income, thirty-one are middle-income, and twenty-eight are upper-income. According to the 1990 census, the area had a total population of 391,583, with total households of 152,332. Of these households, 61% or 92,853 are families. The geographic distribution of families among the four income types of census tracts is 1% in the low-income tract, 6% in moderate-income tracts, 44% in middle-income tracts, and 50% in upper-income tracts. The income distribution of families is 12% low-income, 16% moderate-income, 21% middle-income, and 51% upper-income. Four percent of all families are living below the poverty level. However, information regarding the geographic concentrations of such families is not available. The data are available for household and they indicate 23% of households in low-income tracts, 13% of households in moderate-income tracts, 8% of households in middle-income tracts, and 5% of households in upper-income tracts are living below the poverty level. Dun and Bradstreet data indicate there are a total of 7,735 small businesses in the area with the following distribution: 1% in the low-income tract, 4% in moderate-income tracts, 51% in middle-income tracts, and 44% in upper-income tracts. The prevailing industries in San Diego County are services, trade, state and local government, and manufacturing. A majority (50%) of the housing stock is owner-occupied with renter occupied housing being 43%. Southern California Bank operates one full-service branch in this assessment area. The branch was acquired as a result of the merger between Southern California Bank and the National Bank of Southern California and was previously a branch of National Bank of Southern California.

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

The limited scope review of the bank's performance in this assessment area included a limited review of all three regulatory tests. For the lending test, the bank's origination of small business, other loans to benefit small business, and consumer loans were reviewed. In addition, examiners gave consideration to the level of community development lending. The quantity and complexity of the bank's CRA qualified investments was also evaluation. Finally, examiners considered both the level and nature of retail and community development services provided by the bank.

Based on this limited review, the bank's lending, investment, and service performance in this assessment area appears consistent with the bank's overall performance.