



Comptroller of the Currency
Administrator of National Banks

Small Bank

Public Disclosure

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Community Reinvestment Act Performance Evaluation

**National Bank of California
Charter Number 17480**

**145 South Fairfax Avenue
Los Angeles, CA 90036**

**Office of the Comptroller of the Currency
Southern California- North Field Office
550 North Brand Boulevard, Suite 500
Glendale, California 91203-1900**

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.

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 of the **National Bank of California** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 1, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate - Any company that controls, is controlled by, or is under common control by another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Census Tract (CT) - Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per ten-year census and an average population of 4,000.

Community Development (CD) - Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR §121.301) or have gross annual revenues of \$1 million or less; or, activities that revitalize or stabilize low- or moderate-income geographies.

Community Reinvestment Act (CRA) - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography - A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA) - The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants, the amount of loan requested, and the disposition of the application (e.g., approved, denied, and withdrawn).

Home Mortgage Loans - Such loans include home purchase and home improvement loans, as defined in the HMDA regulation. This definition also includes multifamily dwelling loans (five or more families), loans for the purchase of manufactured homes and refinancing of home improvement and, home purchase loans.

Low-Income - Income levels that are less than 50 percent of the median family income.

Median Family Income (MFI) - The median income determined by the United States Census Bureau

every ten years and used to determine the income level category of geographies. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

Metropolitan Statistical Area (MSA) - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Middle-Income - Income levels that are at least 80 percent and less than 120 percent of the MFI.

Moderate-Income - Income levels that are at least 50 percent and less than 80 percent of the MFI.

Small Business Loans - Loans with original amounts of \$1 million or less that are: (1) secured by nonfarm nonresidential properties; or (2) commercial and industrial loans to U.S. addresses.

Small Farm Loans - Loans with original amounts of \$500 thousand or less that are: (1) secured by farmland; or (2) to finance agricultural production and other loans to farmers.

Tier 1 Capital - The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings, and minority interests in the equity accounts of consolidated subsidiaries.

Upper-Income - Income levels that are 120 percent or more of the MFI.

Overall CRA Rating

Institution's CRA Rating: This institution is rated Satisfactory.

The major factors supporting the institution's rating are:

- The geographic distribution of loans throughout the assessment area exceeds the standard for satisfactory performance.
- The bank's record of lending to businesses of different sizes meets the standard for satisfactory performance.
- The number and dollar amount of loans made within the assessment area meets the standard for satisfactory performance.
- The quarterly average loan-to-deposit ratio of the bank meets the standard for satisfactory performance.

Description of Institution

National Bank of California (NBC) opened on October 19, 1982, and remains headquartered in the Fairfax district of the city of Los Angeles. In addition to its main office, NBC operates a branch office in Sherman Oaks, which opened October 1, 1998. The former Beverly Center branch closed on May 10, 1999, because of the lack of business at that location. However, to provide continued service to customers served by the Beverly Center branch, the bank still operates an automated teller machine (ATM) there, in addition to the ATM at the main office. NBC is not affiliated with any other entities, nor is it part of a holding company.

NBC is a commercial bank with its lending activity focused on small and medium sized businesses in the Los Angeles County area. As of September 30, 1999, net loans totaled \$80.7 million, representing 65 percent of total assets. Total assets were \$124 million. Ninety percent of the bank's loan originations by dollar amount, since the last CRA exam, are to business borrowers. As of September 30, 1999, commercial real estate secured and commercial loans represented 51 and 21 percent, respectively, of total loans outstanding. An additional 18 percent are Small Business Administration (SBA) loans.

NBC continues to be designated a preferred lender by the SBA. The bank originates, sells, and services SBA Guaranteed loans, including 7A and "Low Doc" facilities. To further assist potential SBA borrowers, NBC participates in the SBA Technical Assistance Program. See comments under the *Other Considerations* section of this document.

There are no financial conditions, legal constraints, or other factors that hinder the bank's ability to help meet the credit needs of its assessment area. At the last CRA examination dated August 14, 1997, NBC received a "Satisfactory" rating.

Description of Assessment Area

NBC's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The assessment area comprises most of Los Angeles County, and consists of 1,530 census tracts within the Los Angeles Metropolitan Statistical Area (MSA). Of these census tracts, 145 are designated low-, 368 moderate-, 500 middle-, and 499 upper-income areas. Eighteen additional tracts are not included in the 1990 census data because they include areas such as the airport, harbor, canal, etc. Within the bank's assessment area there are 75 incorporated cities, and several communities.

Overall, the Los Angeles area has recovered from the recession of the early 1990s, driven by the significant decline in the aerospace, defense, and real estate industries. The 1999 Dun & Bradstreet Business Demographic Data reflects that the assessment area's economy is now focused in service industries, which represent 44 percent of total businesses. Entertainment is a major employment source, followed by manufacturing and retail trade. The unemployment rate in Los Angeles has declined from 7.4 percent in the fourth quarter of 1996 to 5.6 percent as of October 31, 1999.

The 1990 Census Data reports total population of the assessment area at 8 million comprised of 1.8 million families. Based on this information, the population included 312,003 unemployed persons and 795,536 individuals over the age of 65. Average housing cost was \$248 thousand, and rental units accounted for 54 percent of total housing stock. The 1998 HUD MSA updated median family income is \$51,300

Competition is fierce among financial institutions serving the assessment area. Despite industry consolidation, there are many community banks, branches of regional and multi-national banks, and savings and loan associations competing for limited business opportunities.

We gathered community contact information from five resources, including local community development, economic development, and small business associations. These sources indicate a continued need for affordable housing and capital funding for small businesses. Construction of affordable housing and commercial development in economically challenged areas peaked during 1995-1996. Public dollars for these activities have been reduced over the last few years, forcing public developers to seek other funding sources. The lack of funds is especially problematic given the influx of low-income families into the county. Small businesses continually need capital, but typically do not qualify for bank financing. Banking consolidation has also reduced the availability of small loan products.

Conclusions with Respect to Performance Criteria

Distribution of Credit within the Assessment Area by Geography

The geographic distribution of loans throughout the assessment area exceeds the standard for satisfactory performance.

Ninety percent of the bank's lending activity is to businesses. Accordingly, this analysis focused on business loans only. Bank supplied information was tested and determined to be reliable. Our sample included 16 percent of all loans made since the last examination.

NBC's geographic distribution of business loans reflects good dispersion throughout its assessment area. No conspicuous gaps were identified in the analysis. The following table details the distribution of the bank's business loans within its assessment area, by census tract income level category. The data reflects all business loans originated since the last CRA examination. This data is compared to census tract type data, based on 1999 Dun & Bradstreet Business Demographic Data reported for non-farm businesses.

Geographic Distribution of Business Loans

<i>Census Tract Type (CT)</i>	<i>Percent of Non-Farm Businesses in CT</i>	<i>Percent of Loans in CT by Number</i>	<i>Percent of Loans in CT by Dollar</i>
Low	10	12	15
Moderate	21	24	22
Middle	34	31	34
Upper	35	33	29
Total	100	100	100

Distribution of Credit within the Assessment Area by Borrower Income

The bank's lending to business borrowers of different sizes meets the standard for satisfactory performance.

We focused only on business loans, which represent 90 percent of the bank's lending activity. To determine the distribution of loans originated by borrower income, we sampled 58 credit files, representing 16 percent of all business loans originated within the assessment area, between January 1, 1998, and September 30, 1999.

The bank's record of lending to businesses of different sizes is satisfactory. The following chart reflects that NBC's performance compares favorably relative to the high number of small businesses within the bank's assessment area. The analysis is based on 1999 Dun & Bradstreet Business Demographic Data for non-farm businesses reporting revenues.

Distribution of Loans to Businesses of Different Sizes

<i>Business Size by Gross Annual Revenues</i>	<i>Percent of Businesses in Assessment Area</i>	<i>Number of Loans in Sample</i>	<i>Percent</i>
Less than \$ 1 Million	87	41	71
Greater than \$ 1 Million	13	17	29
Total	100	58	100

NBC's lending performance relative to the size of loans made to businesses within its assessment area is very good. Seventy two percent of the bank's business loans are in amounts less than \$250 thousand, with the majority less than \$100 thousand. The following table shows the distribution of all business loans made inside the assessment area since the last CRA evaluation.

Size of Business Loans within the Assessment Area

<i>Size of Loans (000's)</i>	<i>Number of Loans Originated</i>	<i>Percent</i>
Less than \$100	164	46
\$100 - \$249	90	26
\$250 - \$1 Million	94	27
Greater than \$1 Million	4	1
Total	352	100

Lending Inside and Outside of the Assessment Area

The number and dollar amount of loans made within the assessment area meets the standard for satisfactory performance.

NBC extends the majority of its loans within its assessment area. Of all loans originated from January 1, 1998, to September 30, 1999, the bank made 78 percent both by number and by dollar volume of loans, to borrowers inside the assessment area.

Loan-to-Deposit Ratio Analysis

NBC's quarterly average loan-to-deposit ratio meets the standard for satisfactory performance.

The bank's loan to deposit ratio is satisfactory, given the bank's size, financial condition, and assessment area credit needs. The bank's average loan-to-deposit ratio for the eight quarters ending June 30, 1999, is 73 percent. This compares favorably to the 64 percent average for seven local banks of similar asset size and business focus. Peer average ratios ranged from 46 percent to 81 percent.

NBC's loan-to-deposit ratio does not fully reflect the bank's lending activity. The bank originates and

sells a substantial volume of SBA loans, while retaining only a small portion on its balance sheet. Since January 1, 1998, the bank sold \$9.4 million in SBA loans in the secondary market. If we add, the SBA guaranteed principal portions of the loans sold to the total loans of the bank, the loan-to-deposit ratio would increase to 88 percent as of September 30, 1999.

Other Considerations

- **SBA Loan Origination Activity:** For the period from January 1, 1998, to September 30, 1999, NBC originated 27 new SBA loans totaling \$7.9 million within its assessment area.
- **SBA Loan Servicing Program:** As of September 30, 1999, the bank services 115 SBA loans with balances of \$31 million, which the bank sold in the secondary market. The selling of these loans has allowed the bank to re-employ the funds into additional loans that it otherwise would not have been able to make.
- **SBA Technical Assistance Program:** Rather than refer potential loan applicants to an outside SBA application packager, NBC performs application packaging services at no cost to the applicant. This saves SBA loan applicants approximately \$800 to \$1,500 for this service, which is a fee authorized by the SBA.
- **Enterprise Zone Loans:** These are loans made within special areas designated by the State of California under its revitalization program for special redevelopment and job creation support. In 1998 and 1999, NBC made ten loans totaling \$2.6 million within these special areas within its assessment area.

Response to Complaints

The bank has not received any written complaints regarding its performance in helping to meet the credit needs within its assessment area since the last examination.

Compliance with Anti-discrimination Laws and Regulations

We conducted a concurrent Fair Lending review with this CRA evaluation. We reviewed policies, practices, and procedures for the lending function and conducted a comparative file review. Our comparative file review consisted of a loan benchmarks analysis of automobile loan applications received between January 1, 1998, and September 30, 1999. We compared approved male applicants versus denied female applicants.

Based on the findings of this review, we found no evidence of illegal discrimination or disparate treatment. We did not cite any violations of the fair lending laws or regulations. NBC has a satisfactory process in place to help ensure ongoing compliance with fair lending laws.