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Comptroller of the Currency  
Administrator of National Banks

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## **Public Disclosure**

January 12, 1998

# **Community Reinvestment Act Performance Evaluation**

**United National Bank  
Charter Number: 17785**

**2090 Huntington Drive  
San Marino, California 91108-2046**

**Office of the Comptroller of the Currency  
San Francisco District Office  
50 Fremont Street, Suite 3900  
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.**

## Table of Contents

<b>General Information</b> .....	2
<b>Definitions and Common Abbreviations</b> .....	3
<b>CRA Rating</b> .....	4
<b>Description of Institution</b> .....	5
<b>Description of the Assessment Area</b> .....	5
<b>Conclusions with Respect to Performance Tests</b>	
Lending Test .....	7
Investment Test .....	11
Service Test .....	11
<b>Fair Lending Review</b> .....	14
<b>Appendix A: Scope of Examination</b> .....	15

## **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 **United National Bank (UNB)** prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of **January 12, 1998**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include the visits to some, but not necessarily all of the institution's branches. 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.

**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 safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**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.

**Census Tract (CT)** - Small, locally defined 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.

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race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

**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 census tracts. 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.

**Low-Income** - Income levels that are less than 50% of the MFI.

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

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

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

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loans** - Loans with an original amount of \$500 thousand or less for which the bank is required to collect and report certain monitoring data under the CRA regulation.

## CRA Rating

**Institution’s CRA Rating:** This institution is rated **“Needs to Improve.”**

The major factors which support this rating include:

- ▶ UNB’s lending level reflects poor responsiveness to the credit needs of the assessment area.
- ▶ The level of community development lending is good.
- ▶ The distribution of loans to business customers of different sizes is good.
- ▶ The delivery systems are relatively accessible to essentially all portions of the bank’s assessment area.
- ▶ Branch openings and closings did not adversely impact low- and moderate-income individuals.
- ▶ Product innovation and flexibility are poor.
- ▶ UNB’s level of qualified investment is poor.

The following table indicates the performance level of **United National Bank** with respect to the lending, investment, and service tests:

Performance Levels	United National Bank Performance Tests		
	Lending Test*	Investment Test	Service Test
Outstanding			
High satisfactory			
Low satisfactory	X		X
Needs to improve		X	
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**

United National Bank (UNB), a full-service bank, which opened in 1983 and is headquartered in San Marino, California. As of December 31, 1997, the bank had \$339 million in total assets. UNB operates seven branches, six in the greater Los Angeles area and one in Northern California. The Southern California branches are in San Marino, Monterey Park, San Gabriel, the City of Industry, Beverly Hills and downtown Los Angeles. In December 1997, the bank opened a branch in Northern California in Cupertino, a suburb of San Jose, in Santa Clara county. The bank's primary product offerings are: commercial real estate loans; commercial loans; consumer loans; trade finance and various depository services. As of December 31, 1997, total loans of \$200 million comprised 59 percent of total assets, while the loan-to-deposit ratio for the same period was 66 percent. The loan portfolio consists of the following: 75 percent commercial real estate; 19 percent commercial (small business); 5 percent residential real estate and 1 percent consumer loans.

The bank recently notified the OCC of its decision to close its downtown Los Angeles Branch and open another branch in Walnut, a suburb 20 miles east of Los Angeles. The downtown branch is located in a low-income census tract. The new branch will be located in an upper-income census tract. The closure and opening are planned for the third quarter of 1998. The primary reasons for closing this office are the long term unprofitability of the Los Angeles branch, and the over-saturation of banks in the immediate area. Additionally, management believes the downtown location is incompatible with the bank's business strategy which is to emphasize commercial real estate lending and trade finance. Management also believes that the bank's growth strategy will be better served by operating in suburban locations.

In 1997, the bank relocated its Westwood Branch to a new site on Roxbury Drive in Beverly Hills. Both locations are in upper-income census tracts.

The bank operated under an OCC directed Formal Agreement from May 1993, through November 1997. The Formal Agreement focused primarily upon improving the quality of the bank's loan portfolio. The concerted effort required to remedy the bank's asset quality problems, combined with a recession, resulted in slow loan growth from 1995 through 1996. Total loans increased by 3 percent or \$4.8 million between January 1, 1995, and December 31, 1996. Loan growth increased nearly 22 percent or \$36 million by year ending December 31, 1997. The bank generated a total of \$6.3 million in after tax profits during this three-year period.

## **Description of the Assessment Area**

Based upon the location of the main office and branch facilities, the Board of Directors define the bank's assessment area to include 275 census tracts. Although the bank has three distinct assessment areas, for the purposes of this examination we elected to combine these tracts into one since they are all within the Los Angeles County MSA. Aside from the aforementioned cities where the bank has branches, the assessment area also includes the following cities and communities: Alhambra; Arcadia; Baldwin Park; Diamond Bar; East Pasadena; West Covina; San Gabriel; El Monte; Hacienda Heights; La Puente; Montebello; Pasadena; Rosemead; Santa

Monica; Downtown Los Angeles Jewelry Market District; South El Monte; South Pasadena; Temple City; Valinda; Walnut and Westwood. As of the date of this examination, management has not defined an assessment area for the bank's new Cupertino Branch.

The assessment area income characteristics are shown in the following table:

United National Bank - Assessment Area															
Low-Income				Moderate-Income				Middle-Income				Upper-Income			
Census Tracts		Families		Census Tracts		Families		Census Tracts		Families		Census Tracts		Families	
23	8%	71,640	20%	43	16%	56,476	16%	107	39%	69,792	20%	101	37%	154,981	44%

Source: Demographic Data - 1990 U.S. Census

The combined population (1990 census) of the 275 census tracts is 1,553,149. The Office of Housing and Urban Development (HUD) calculates the 1997 Median Family Income for the Los Angeles MSA as \$47,800.

Major employers in the Los Angeles MSA are concentrated in the following industries: services (including the motion picture and entertainment industry), manufacturing, government and wholesale/retail trade. Over the past several years, the Los Angeles county economy has rebounded from a lengthy recession. UNB's assessment area is highly competitive, with a wide assortment of banks and financial service organizations.

As part as of our examination, we considered information received from nine different Community Organizations. They included the following organizations: two community housing groups; two city redevelopment agencies; a local community development corporation; two small business trade associations; a grassroots fair lending organization and a university business expansion organization. Our contacts identified a variety of needs throughout the assessment area in the following areas: **Lending** - Pre-development and gap financing for affordable housing projects; small business loans with emphasis on micro loans from \$3,000 to \$5,000 for short term financing needs; flexible terms and low rates in lieu of cash donations; first-time home buyer loans; renovation loans for housing and businesses; bank participation in Loan Guarantee programs; commercial business relocation programs; financing for capital improvements to primary arterial street corridors in conjunction with redevelopment agency programs; State Bond Guarantee Program loans to encourage surety companies to issue bonds to small and emerging contractors; and loan pools. **Investments** - Cash contributions or grants to community organizations; in-kind contributions such as computers, office equipment and building materials; donation of ORE properties and conversion to suitable low-income housing uses, and CDC equity participations. **Services** - Investment and credit advice as well as reduced cost banking services or banking services for tenants of low-cost housing projects; volunteers for construction of homes for selected low income families; technical assistance such as providing loan committee expertise for community groups; office space for community groups; people to serve on committees (volunteers, fund raising, construction, site development) and running and interpreting credit reports or information for organizations needing this type of assistance.

# Conclusions with Respect to Performance Tests

## LENDING TEST

*In assessing lending performance, we focused on UNB's lending activity; assessment area concentration; geographic distribution of loans; borrower profile; responsiveness to credit needs of economically disadvantaged geographies, low-income persons or small businesses; community development lending; and, product flexibility.*

Conclusions:

The bank's lending performance within its assessment area is rated as "Low Satisfactory", this is based on the following:

- ▶ UNB's lending level reflects poor responsiveness to the credit needs of its assessment area.
- ▶ The distribution reflects adequate penetration of small business and trade finance loans among the geographies within the assessment area .
- ▶ UNB's distribution of loans to business customers of different sizes is good.
- ▶ The level of community development lending is good.
- ▶ Product innovation and flexibility are poor.

The bank became subject to small business loan data collection for the first time in 1997, and reported twenty-six small business loans. UNB is primarily a commercial real estate lender and secondarily a small business lender. The bank's consumer lending was not considered as material for purposes of this evaluation. Consumer loans comprise only one percent of the bank's loan portfolio. We used the loan data provided by the bank and verified the accuracy of the data through the review of 165 loan files. Refer to **Appendix A** for additional information on the scope of this evaluation.

### ***Lending Activity***

UNB's lending level reflects poor responsiveness to credit needs within its assessment area. Commercial real estate loans by dollars are the largest segment of the bank's lending. These loans account for 65 percent the loans funded, by dollar volume during this review period. This is consistent with the bank's business strategy. Small business and trade finance business loans account for 21 percent and 14 percent, respectively of the loans funded during this review period, by dollar volume. UNB operated under a Formal Agreement (FA) during the review period. Although UNB was operating under a FA, which required the bank to improve its asset quality, the bank increased its lending activity each year. The increase was apparent in terms of both the number and the dollar volume of loans funded. However, the loans funded did not adequately address the credit needs of the assessment area. Refer to the Description of the Assessment Area section of this Public Disclosure for a discussion of the credit needs identified.

Home mortgage lending is not a significant part of the bank's lending. During the review period, the bank funded 28 home mortgage loans which totaled \$17.5 million. Eleven of these loans totaling \$4 million, were extended within the assessment area. This represents 39 percent and 23 percent of the loans by numbers and dollars funded, respectively. Three of the loans extended were to borrowers in moderate-income tracts and eight were to borrowers in upper-income tracts.

Since the bank was not subject to small business loan data collection until 1997, there is no market share analysis available. Additionally, the bank did not generate home mortgage loans in sufficient number to make a market share analysis meaningful for this product type.

### ***Assessment Area Concentration***

A majority of the bank's loans are within the assessment area. The percentages of total loans were 56 percent by number and 65 percent by dollars.

<b>Volume of Loan Originations in 1995, 1996, and 1997 Within the Assessment Area</b>						
<b>Loan Product</b>	<b>Total Originations</b>		<b>Within the Assessment Area</b>			
	<b>#</b>	<b>\$ (000)</b>	<b>#</b>	<b>%</b>	<b>\$ (000)</b>	<b>%</b>
Commercial Real Estate	41	\$26,934	28	68%	\$17,430	64%
Small Business	107	\$21,895	62	58%	\$12,154	56%
Trust Receipt/ Small Business	106	\$4,536	39	37%	\$1,085	24%
<b>Total 1995</b>	<b>254</b>	<b>\$53,365</b>	<b>129</b>	<b>51%</b>	<b>\$30,669</b>	<b>57%</b>
Commercial Real Estate	75	\$58,749	50	67%	\$41,573	71%
Small Business	86	\$16,349	57	66%	\$9,990	61%
Trust Receipt /Small Business	91	\$6,604	38	42%	\$2,103	32%
<b>Total 1996</b>	<b>252</b>	<b>\$81,702</b>	<b>145</b>	<b>58%</b>	<b>\$53,666</b>	<b>66%</b>
Commercial Real Estate	81	\$62,267	66	81%	\$46,264	74%
Small Business	92	\$11,095	78	85%	\$8,557	77%
Trust Receipt/Small Business	430	\$19,995	200	47%	\$9,640	48%
<b>Total 1997</b>	<b>603</b>	<b>\$93,357</b>	<b>344</b>	<b>57%</b>	<b>\$64,461</b>	<b>69%</b>
<b>Grand Total</b>	<b>1,109</b>	<b>\$228,424</b>	<b>618</b>	<b>56%</b>	<b>\$148,796</b>	<b>65%</b>

Source: Bank prepared data

### ***Geographic Distribution of Loans within the Assessment Area***

UNB's penetration throughout the assessment area is adequate. Within the assessment area 8 percent of the tracts are designated low-income and 16 percent moderate-income. In 1995 and 1996, the bank extended 6 percent and 4 percent of the small business loans it made to borrowers in low-income areas. In 1997, UNB did not fund any small business loans to borrowers in the low-income census tracts within its assessment areas. Borrowers in the moderate-income areas received 13 percent, 14 percent, and 12 percent of the loans for the years ending 1995, 1996, and 1997, respectively.

<b>Distribution of Small Business and Trade Finance Originations in 1995, 1996 and 1997 Within the Assessment Area By Income Level of the Census Tract</b>								
<b>Assessment Area Data</b>	<b>Low-Income</b>		<b>Mod-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Census Tracts	23	8%	43	16%	107	39%	101	37%
Census Tracts Penetrated (% of tracts in income group)	10	43%	29	67%	59	55%	65	64%
Number of Businesses With Sales of less than \$1 million	12,750	17%	11,112	14%	25,845	33%	27,542	36%
<b>Loan Product</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Small Business	4	6%	8	13%	19	31%	31	50%
Trade Finance Business	2	5%	11	28%	24	62%	2	5%
<b>Total 1995</b>	<b>6</b>	<b>6%</b>	<b>19</b>	<b>19%</b>	<b>43</b>	<b>43%</b>	<b>33</b>	<b>33%</b>
Small Business	2	4%	8	14%	19	34%	27	48%
Trade Finance Business	0	0%	15	41%	22	59%	0	0%
<b>Total 1996</b>	<b>2</b>	<b>4%</b>	<b>23</b>	<b>25%</b>	<b>41</b>	<b>44%</b>	<b>27</b>	<b>29%</b>
Small Business	0	0%	7	12%	20	35%	31	53%
Trade Finance Business	44	22%	65	33%	88	44%	3	2%
<b>Total 1997</b>	<b>44</b>	<b>17%</b>	<b>72</b>	<b>28%</b>	<b>108</b>	<b>42%</b>	<b>34</b>	<b>13%</b>
<b>Grand Total</b>	<b>52</b>	<b>12%</b>	<b>114</b>	<b>25%</b>	<b>192</b>	<b>42%</b>	<b>94</b>	<b>21%</b>

Our analysis revealed four conspicuous gaps in the bank's lending. Three gaps are in the San Gabriel Valley and one in downtown Los Angeles. In 1995, the bank identified the gaps in the San Gabriel Valley and attempted to improve the penetration by organizing the San Gabriel Valley CDC in partnership with 15 other financial institutions. However, this CDC is not yet operational. These lending gaps include low- and moderate-income tracts as well as middle- and upper-income tracts. The lending gap in downtown Los Angeles consists only of low-income tracts. The downtown Los Angeles branch has not operated profitably from its inception. Management plans to close this office in the third quarter of 1998.

***Distribution by Borrowers' Income within the Assessment Area***

The distribution of loans to business customers of different sizes is good. This is based on the numbers and dollars of the loans extended to businesses with revenues under \$1 million during 1995, 1996, and 1997, as shown in the table below. The bank funded 196 loans totaling \$29 million in small business loans. Of those numbers 191, or 97 percent and \$27 million or 92 percent were to businesses with revenues of less than \$1 million.

Distribution of Small Business Loan Originations in 1995, 1996, and YTD 1997 Within the Assessment Area By Loan Size and Business Revenues								
Loan Size					Annual Revenues < \$1 Million*			
	#	%	\$ (000)	%	#	%*	\$ (000)	%*
less than \$100,000	109	56%	\$3,327	12%	109	100%	\$3,327	100%
\$100,000 to \$250,000	50	25%	\$7,395	25%	50	100%	\$7,395	100%
\$250,000 to \$1,000,000	37	19%	\$18,502	63%	32	86%	\$16,222	88%
Totals	196	100%	\$29,224	100%	191	97%	\$26,944	92%
*There are 77,249 businesses with revenues of less than \$1 million.								

Source: Business Demographic Data and bank prepared Small Business

***Community Development Lending***

The bank's level of community development lending is good. During the review period, UNB funded a total of \$4.5 million in community development loans. One loan in the amount of \$1,026,026 was to a local community hospital located in the East Los Angeles community. This hospital is located in a low-income census tract and serves a low-income neighborhood. It provides healthcare and jobs for the residents in that area. This loan is not included in the small business loan numbers in the above table. Additionally, UNB funded \$3.3 million in multi-family affordable residences in the assessment area.

***Product Innovation and Flexibility***

The bank has not developed any innovative products to meet the credit needs within the assessment area. Product flexibility is limited to loan underwriting.

## INVESTMENT TEST

*To assess UNB's performance under the Investment Test, we reviewed its investment and grant activity; responsiveness to credit and community development needs; and, its initiatives with community development.*

Conclusions:

UNB's investment performance is rated as "Needs to Improve". This rating is based on the discussions that follow.

- ▶ UNB made one \$25,000 investment.

Information is not available to compare UNB's investment volume to peer banks. During this review period (see appendix A), the bank made one qualifying investment of \$25,000 in the Greater San Gabriel Valley Community Development Corporation and committed \$40,000 to the loan pool. However, as of the date of this report, the CDC has not funded any loans. UNB took a leadership role in the organization of this CDC. This activity was both complex and responsive to the needs of small businesses. However, these activities benefit the San Gabriel Valley, not the entire assessment area. Additionally, UNB made one \$500 contribution to a housing services organization, which serves the entire assessment area. UNB donated \$400 through the Christmas in April program to help rehabilitate homes for low-income residents in Monterey Park and Pasadena. There are a number of opportunities for investment within the bank's assessment area. Please refer to the Assessment Area description for details.

## SERVICE TEST

*In assessing UNB's performance under the Service Test, we focused on the accessibility of the delivery systems; changes in branch locations; reasonableness of the business hours and services in meeting the needs of the assessment areas; and, level of community development services.*

Conclusions:

The bank's performance under the service test is rated "Low Satisfactory".

- ▶ UNB's delivery systems are relatively accessible to essentially all portions of its assessment area.
- ▶ Branch openings and closings did not adversely impact the accessibility of the bank's delivery systems, particularly to low- and moderate-income individuals.
- ▶ Bank products are the same at all branches, but the hours of services vary at some branches. However, the variance in service hours does not adversely impact low- or moderate-income areas.

## ***Retail Banking Services***

The bank's branches are relatively accessible to all portions of its assessment area. UNB's seven branches are reasonably distributed among the geographies within the assessment areas. The majority of UNB's branches are distributed within the middle- and upper-income geographies, this is consistent with the combined assessment area demographics. Please refer to the table below for details.

<b>Distribution of Delivery System By Income Level of the Census Tracts</b>								
<b>Community Data</b>	<b>Low-Income</b>		<b>Mod-Income</b>		<b>Middle-Income</b>		<b>Upper-Income</b>	
Census Tracts	23	8%	43	16%	107	39%	101	37%
Households	30,600	6%	85,520	16%	206,162	39%	202,314	39%
<b>Type of Service</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
Branches	1	14%	0	0%	4	57%	2	29%
ATMs	0	0%	0	0%	0	0%	0	0%
Totals	1	14%	0	0%	0	57%	0	29%

Source: Bank Internal Records and U.S. Census Bureau

UNB's record of opening and closing offices is satisfactory. In July 1997, the bank closed and relocated its Westwood branch to Beverly Hills. This relocation did not have an adverse impact on the low- and moderate-income geographies. The bank did not change its assessment area and both of the communities involved are predominantly middle- and upper-income geographies.

The bank offers limited alternative delivery services. UNB does not own or operate automated teller machines (ATMs). However, the bank does issue ATM cards, which customers can use at other banks' ATMs. Customers are charged a fee of one dollar for each transaction they conduct. Service at the other banks' ATMs are limited to cash withdrawals. The bank has a pool of bi-lingual personnel available to assist customers who do not speak English. UNB also provides courier and bank-by-mail services.

UNB business hours, services, and products are reasonable. The bank offers a wide array of traditional banking products at all of its branches. There are no differences in the types of products and services offered at the various branches. All of the bank's branches maintain the same business hours Monday through Friday, which are essentially similar to those of the bank's competitors. However, there are differences in the branches' Saturday and Sunday hours. Of the four branches which are open on Saturdays, three are located in middle-income census tracts and one in an upper-income tract. The one branch which is open Sundays is located in a middle-income census tract. The one branch in the low-income census tract is located in a business district and there is no demand for Saturday or Sunday banking.

Three of the bank's senior officers contributed 100 hours of their time to help organize the San Gabriel Valley CDC. A senior bank executive serves as a member of the board of directors.

In 1997, officers of UNB spent three days providing a total of five classes on banking and finance to the students in the English as a Second Language (ESL) department at the Mount San Antonio College.

## **Fair Lending Review**

*We performed a fair lending review during our examination of UNB. The review did not disclose any instances of disparate treatment or discrimination. We did not identify any violations of substantive provisions of the antidiscrimination laws and regulations.*

*The bank's policies and procedures are adequate. However, training and testing are stale dated. Both of these activities were last performed in 1996. As a result, we cited two technical violations, both of which dealt with adverse action notices.*

## **Appendix A: Scope of Examination**

Our evaluation of United National Bank's CRA performance covered the performance period beginning January 1995, through December 1997. We applied the Interagency procedures and guidelines for Large Retail Institutions in our review. We evaluated the bank's small business loans, trade finance loans, and community development loans. We did not consider affiliate loans in this analysis. As stated in the **Description of the Assessment Area** comment, we considered information from nine community contacts reported over the previous two years.