



WHOLESALE OR LIMITED PURPOSE

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

February 23, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**California First National Bank
Charter Number 23925**

**18201 Von Karman Avenue, Suite 420
Irvine, California 92612**

**Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, California 92008**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

Institution's CRA rating:

This institution is rated Satisfactory.

Conclusions for the three criteria supporting this rating are:

- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area.
- The bank demonstrates an adequate level of community development lending, services, and qualified investment activity.
- The bank's use of innovative or complex community development loans, investments, or services is rare, but performance is otherwise satisfactory.

Scope of the Examination

California First National Bank ("California FNB" or the "*bank*") is designated as a "wholesale institution" for CRA purposes. To evaluate the CRA performance of banks with this designation, regulatory agencies use the *community development test*. This includes an assessment of the level and nature of a bank's community development lending, investments, and services.

This is California FNB's first CRA examination. To evaluate the bank's performance, we reviewed its community development lending, services, and investments during the evaluation period: from May 23, 2001, when the bank opened for business, through February 23, 2004. At the bank's request, we also considered the community development lending and services provided by its affiliates, Amplicon, Incorporated and California First Leasing Corporation. Because the bank has adequately addressed the needs of its assessment area, we were also able to consider community development activities the bank participated in outside its designated assessment area.

Description of Institution

California FNB is an Internet-based commercial bank headquartered in Irvine, California. In its Consolidated Report of Condition and Income as of December 31, 2003, the bank reported total assets of \$55.64 million, consisting mainly of \$33.68 million in net leases. Deposits totaled \$36.85 million, and Tier 1 Capital totaled \$18.45 million. Additional financial information is provided in Table 1.

The bank is a wholly owned subsidiary of California First National Bancorp, a one-bank holding company also headquartered in Irvine. As of September 30, 2003, the holding company reported \$243.89 million in total assets, consisting mainly of \$170.74 million in net leases of its subsidiary leasing companies. Holding company equity capital totaled \$198.48 million.

California FNB adequately meets the credit needs of its assessment area, consistent with its size, financial resources, complexity, legal constraints, and other barriers that hinder its ability to participate in community development activities. Under its approved operating charter, leasing activity is limited,

which is the primary reason it is designated as a “wholesale” institution for CRA purposes.

The bank’s business strategy is to fund capital assets that are leased to small- and medium-sized businesses. Currently, the bank markets leases mostly to universities, colleges, and other not-for-profit organizations throughout the United States. The bank also purchases leases from its affiliates and other independent sources. California FNB has no branches or banking offices accessible to the public. The bank delivers its products and services through a variety of electronic delivery channels, including the Internet, and offers traditional deposit accounts to retail customers nationwide.

Table 1: Financial Information (\$000s)

	Year-end 2001	Year-end 2002	Year-end 2003	Average for Evaluation Period
Tier 1 Capital	19,437	18,424	18,447	18,769
Total Income	445	1,699	3,092	1,745
Net Operating Income	(728)	(1,013)	23	(573)
Total Assets	21,675	38,261	55,643	38,526

Source: Consolidated Report of Condition and Income and bank reported data.

Description of Assessment Area

California First National Bank’s assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area consists of Los Angeles County and Orange County, which are adjacent counties located in Southern California. Los Angeles County consists of the 2,054 census tracts that comprise Metropolitan Area (“MA”) 8840. Orange County consists of the 577 census tracts that comprise MA 5940. The two MAs are part of the Los Angeles-Riverside-Orange Consolidated Metropolitan Area (“CMA”). A description of each MA that comprises the bank’s assessment area follows.

Los Angeles-Long Beach MA

Los Angeles-Long Beach MA Assessment Area Description

	Number	Low	Moderate	Middle	Upper	N/A
Tracts	2,054	9%	28%	28%	34%	1%
Families	2,154,311	24%*	17%*	17%*	42%*	0
Businesses	684,643	8%**	20%**	26%**	46%**	<1%
Farms	5,506	3%	14%	32%	51%	<1%

[Note: “N/A Tracts” are geographies not designated by the U.S. Census according to a specific income level.]

Source of demographic data shown above: 2000 U.S. Census and 2003 Dun & Bradstreet Data.

* Represents families by income level.

** Represents businesses by income level of census tract.

The Los Angeles-Long Beach MA is a complex and highly diverse urban area that includes 88 cities and a number of unincorporated areas. Los Angeles County is one of the nation’s largest counties, encompassing 4,081 square miles. Approximately 28 percent of California’s residents live in Los Angeles County, which has a total population of 9.5 million. The City of Los Angeles, with a 2001 population of 3.8 million, is the largest city in the county and the second largest city in the United

States.

The Los Angeles area is considered the entertainment capital of the world and many jobs are dependent on the television and film industries. The area is also heavily dependent on domestic and international trade, with the ports of Los Angeles and Long Beach and the Los Angeles International Airport playing key roles in this sector. Additionally, home construction activity has continued to grow at a fast pace with demand driven by low interest rates over the last few years.

Reflective of the slow economy in recent years, the unemployment rate rose from 5.5 percent in 2000 to 6.8 percent in September of 2003 according to the U.S. Bureau of Labor Statistics. However, data that are more recent show the trend may be improving. The California Employment Development Department reported that the unemployment rate at year-end 2003 improved somewhat to 6.1 percent. The largest industries in the Los Angeles MA are entertainment, defense and aerospace, retail and international trade, travel and tourism, real estate, and financial services. According to figures from the Bureau of Labor Statistics in 2001, the motion picture production and services segment is the largest employer with 130,000 employees. Miscellaneous business services are the next largest segment with 104,000. The top 10 largest employers are Walt Disney, University of California at Los Angeles (UCLA), Kaiser Permanente, Boeing, Ralph’s Grocery, Bank of America, Target, SBC, Northrop-Grumman, and ABM Industries.

The median value of housing units in Los Angeles County is \$240,248 according to the 2000 U.S. Census, with 46 percent of all units owner occupied. The U.S. Department of Housing and Urban Development’s 2003 updated median family income for the Los Angeles MA is \$50,300.

Orange County MA

Orange County MA Assessment Area Description

	Number	Low	Moderate	Middle	Upper	N/A
Tracts	577	9%	28%	28%	34%	<1%
Families	673,912	24%*	17%*	17%*	42%*	0
Businesses	249,640	3%**	29%**	36%**	32%**	<1%
Farms	2,856	4%	25%	36%	35%	<1%

[Note: “N/A Tracts” are geographies not designated by the U.S. Census according to a specific income level.]

Source of demographic data shown above: 2000 U.S. Census and 2003 Dun & Bradstreet Data.

* Represents families by income level.

** Represents businesses by income level of census tract.

Much like adjacent Los Angeles County, Orange County is a highly diverse urban area. It includes 34 incorporated cities, encompasses 789 square miles, and has a total population of 2.8 million residents according to the 2000 U.S. Census. The county’s central location, diversity, and continued growth contribute to a strong area economy. The area fared very well during the economic slowing that occurred in recent years at the state and national levels. For example, the Orange County unemployment rate was only 3.2 percent in December 2003 compared to the state and national rates of 6.1 percent and 5.4 percent, respectively.

The California Employment Development Department reported that the employed labor force in the Orange County MA was approximately 1.4 million at the end of 2003. Largest employers in the area include Allergan Incorporated, Apria Healthcare, Bank of America, Beckman Coulter, Boeing

Aerospace, Disneyland, Nordstrom, Ralphs Grocers, and ICN Pharmaceuticals. The largest sectors of the labor market consist of services (43 percent), manufacturing (13 percent), and retail trade (11 percent). Other major industries are centered in research and development, biotechnology, tourism and amusement. Orange County's well-known amusement parks such as Disneyland and Knott's Berry Farm, along with 42 miles of beaches, make the county the third largest center for tourism-related employment in California.

The median value of housing units in Orange County is \$275,476 according to the 2000 U.S. Census, with 59 percent of all units owner occupied. The U.S. Department of Housing and Urban Development's 2003 updated median family income for the Orange County MA is \$70,000.

[Sources of economic and employment data for Orange County outlined above: *the State of California Employment Development Department at www.calmis.ca.gov*, and *Orange County Community Indicators Report 2003/Orange County Government Online at www.oc.ca.gov*.]

Opportunities for Community Development Lending, Investments and Services in the Assessment Area

There is a wide range of opportunities for community development lending, investments and services in the two MAs that comprise the bank's assessment area. We reviewed information from three recent OCC community contacts conducted in connection with CRA examinations of other banks operating in the same area. Organizations contacted include a small business development corporation, economic redevelopment agencies, and a city redevelopment agency.

According to these organizations, the predominant credit needs in the area continue to be financing for affordable housing, micro-loans and other types of credit for small businesses. One small business development corporation reported that there is a special need for subordinate-equity loans for small businesses in the area that would not otherwise qualify under the Small Business Administration's 504 loan program. They also reported an ongoing need for business loans in small dollar amounts, especially "micro-loans" in amounts less than \$10,000.

There are also opportunities for community development investments and services in the assessment area. For example, one redevelopment agency reported that there are several blighted areas in the Los Angeles-Long Beach MA, especially in Central and North Long Beach, where there is high unemployment and housing in need of rehabilitation. Affordable housing and job training are particular needs in these areas. Financial institutions could invest in affordable housing loan pools, for example, to help address this need. One agency reported that financial institutions could help by providing technical assistance to community-based organizations that need financial expertise and guidance.

Conclusions About Performance

Summary

As noted earlier in this evaluation, California FNB's overall CRA performance is "Satisfactory." Given the bank's de novo status, limited financial resources, and available opportunities, the level of community development activities is adequate. A description of the bank's qualified investments,

community development loans, and services follows.

Level of Activity

- The bank originated \$1.24 million in qualified investments during the evaluation period, consisting of one mortgage-backed security secured by loans to low- and moderate-income borrowers.
- A bank affiliate originated one community development loan for \$317,955.
- The bank's president and a representative of an affiliate company provide technical assistance to two community development service organizations.

Innovation or Complexity

California FNB rarely uses innovative or complex community development activities. During the evaluation period, the bank purchased an investment, which we consider complex given the difficulty the bank encountered in acquiring this investment. For a description of this complex investment, refer to the comments under "Qualified Investments." However, the bank did not originate any innovative or complex community development loans nor did it provide any innovative or complex community development services.

Responsiveness to Community Credit Needs

The bank's responsiveness to the credit and community development needs in its assessment area is adequate. Community organizations we interviewed identified affordable housing financing, micro-loans, and other types of credit for small businesses, as the area's most pressing credit needs. Virtually all of the dollars in the bank's community development activities are directed toward affordable housing needs and small business financing.

Qualified Investments

The bank's level of community development investments is high. During the evaluation period, the bank's investments represent almost 7 percent of the bank's average Tier 1 Capital. In addition, investments are highly responsive to the needs of the assessment area. For example, our community contacts identified affordable housing projects as a special need in the assessment area. All but approximately \$5,000 of the bank's investments supports the affordable housing needs of low- and moderate-income persons. The balance of the investments support community development services targeted to low- and moderate-income persons. None of the investments is considered "innovative" as the bank did not assume a leadership role in the development of these products. Examples of these investments follow:

- The bank invested \$1.24 million in a mortgage-backed security that funds mortgages to seven low- and moderate-income families within the assessment area. While the mortgage-backed security is not innovative, acquiring it was difficult for the bank given the strong competition from other larger banks for similar mortgage-backed securities. Additionally, the minimum purchase amounts are typically so high, they effectively prevent banks with limited financial resources from acquiring them.

- The bank contributed \$2,500 to a local organization that provides affordable housing. The bank also made in-kind donations of computer equipment valued at \$2,435 to a local nonprofit organization that provides free computer training to the unemployed and homeless for bettering their employment opportunities.

Table 3 provides an overview of the investment activity of community development investments and grants. Table 4 provides a breakdown of the bank’s investment activity in relation to its financial capacity.

Table 3: Qualified Investment Activity (\$000s)

	Benefits AA
Originated Investments	1,236
Originated Grants	5
Prior-Period Investments that Remain Outstanding	0
Total Qualified Investments	1,241
Unfunded Commitments*	0

* “Unfunded Commitments” means legally binding investment commitments that are tracked and recorded by the bank’s financial reporting system.

Table 4: Qualified Investment Percentages

	Benefits AA
Total Investments/Average Tier 1 Capital	6.61%
Total Investments/Average Total Income	71.12%

Community Development Lending

As noted above under the “Institution Description,” California FNB’s operating charter restricts its lending activity to the origination of commercial leases. During the evaluation period, Amplicon Incorporated, a leasing affiliate of the bank, originated one qualifying lease for \$317,955. The lease provided business equipment for a company located in the bank’s assessment area. While not considered innovative or complex in nature, the lease promotes economic development by supporting permanent job creation in the moderate-income census tract where the business is located. Table 5 shows the bank’s community development lending as a percentage of its average Tier 1 Capital and average total income.

Table 5: Community Development Lending Percentages

	Benefits AA
Total CD Lending/Average Tier 1 Capital	1.69%
Total CD Lending/Average Total Income	18.22%

Source: Consolidated Report of Condition and bank reported data.

Community Development Services

The bank has demonstrated reasonable responsiveness to community development needs within the assessment area through community development services. Given its charter restrictions, short operating history, and very limited staffing, participation in service activities is more difficult for this bank than for a more traditional community bank. However, management is making reasonable efforts to provide services that contribute to community development within the bank's assessment area.

The bank's president, recently employed by the bank, has joined the board of a local faith-based community development organization. While services of the organization are available to the public, the organization has programs targeted to low- and moderate-income persons, including outreach for youth-at-risk and homeless shelters. An officer of the bank's affiliate leasing company also serves on the board of a local economic development corporation, which provides assistance and financing to small- and medium-sized businesses in Orange County.

Fair Lending Review

We found no evidence of illegal discrimination or other illegal credit practices.

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 with 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.

Assessment Area (AA) – A geographic area that consists generally of one or more MAs (using the MA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area – A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity benefits a broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

Block Numbering Area (BNA) – Statistical subdivisions of counties in which census tracts have not been established. The United States Census Bureau has established BNAs in conjunction with state agencies.

Census Tract (CT) – Small, locally defined statistical areas within Metropolitan Areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-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 or a block numbering area delineated by the United States Bureau of the Census in the most recent decennial census.

Median Family Income (MFI) – The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at

which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50 percent of the MFI.
- **Moderate-Income** – An income level that is at least 50 percent and less than 80 percent of the MFI.
- **Middle-Income** – An income level that is at least 80 percent and less than 120 percent of the MFI.
- **Upper-Income** – An income level that is 120 percent or more of the MFI.

Metropolitan Area (MA) – Area defined by the director of the United States Office of Management and Budget. MAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

Net Operating Income – As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, “PreTax Operating Income (TE)”*]

Qualified Investment - A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

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. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, “Net Tier One”*]

Total Assets – Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, “Total Assets”*]

Total Income – From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, “Total Interest Income” and “Noninterest Income”*]

Wholesale Institution – An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.