



PUBLIC DISCLOSURE

July 29, 2013

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

California First National Bank
Charter Number 23925

28 Executive Park
Irvine, CA 92614

Office of the Comptroller of the Currency

1551 North Tustin Avenue
Suite 1050
Santa Ana, CA 92705

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.”

The conclusions for the three rating criteria are:

- The bank demonstrates a high level of community development lending. The bank also has an adequate level of community development services and qualified investment activity.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area (AA).
- The bank’s use of “innovative or complex” community development loans, investments, or services is rare.

Scope of the Examination

California First National Bank (“CFNB” or the “bank”) is designated as a “wholesale institution” for CRA compliance purposes. To evaluate the CRA performance of banks with this designation, we use the *community development test*. This includes an assessment of the level and nature of a bank’s qualified community development lending, investments, and services.

At this examination, we reviewed community development lending, investments, and services during the evaluation period: from October 1, 2007, through June 30, 2013. At the bank’s request, we also considered community development activities provided by its holding company. Because the bank adequately addressed the needs of its AA during this period, we considered community development activities the bank participated in outside its designated AA when evaluating its performance. At the prior CRA examination, dated December 3, 2007, we rated the bank’s performance as “Satisfactory.”

Description of Institution

California First National Bank is an Internet-based commercial bank, headquartered in Irvine, California, which opened for business in May 2001. In its Consolidated Report of Condition and Income as of March 31, 2013, the bank reported total assets of \$471.6 million, consisting mainly of \$285.1 million in commercial leases. Deposits totaled \$356.5 million, and Tier 1 Capital totaled \$96.3 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 March 31, 2013, the holding

company reported \$555.6 million in total assets, consisting mainly of \$322.6 million in net leases of its subsidiaries. The holding company had equity capital of \$179.2 million.

As an Internet-based bank, CFNB does not provide walk-in facilities or deposit-taking ATMs. The bank provides deposit and/or lending services via the Internet, thereby increasing the bank's deposit/lending footprint beyond its designated assessment area.

The bank's business strategy is to fund capital assets that are leased to businesses. Under its approved operating charter, leasing activity is limited primarily to commercial leases, which is the primary reason the bank is designated as a "wholesale" institution for CRA purposes. No home mortgage, small-business, small-farm or consumer loans are extended to retail customers. Since its last CRA examination, CFNB has grown substantially and diversified its credit portfolio to include a broader range of commercial credits. The bank's customers include major corporations, middle-market companies, subsidiaries and divisions of Fortune 500 companies, private/state regulated educational institutions, not-for-profit organizations/institutions and municipalities/government enterprises throughout the United States.

The bank has no legal, financial, or other factors that would affect its ability to meet the credit needs in its assessment area.

Table 1: CFNB Financial Information (\$000s)

	Year-end 2008	Year- end 2009	Year-end 2010	Year-end 2011	Year-end 2012	Most Recent Quarter-end 03/31/2013	Average for Evaluation Period
Tier 1 Capital	41,457	68,862	74,954	80,741	84,977	96,319	74,552
Total Income	16,695	19,128	16,695	17,351	19,235	20,304*	18,235
Net Operating Income	2,466	7,405	6,092	5,787	4,236	5,368*	5,226
Total Assets	283,926	300,077	322,682	357,027	429,301	471,601	360,769

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

Description of Assessment Area

CFNB has designated the entire Counties of Los Angeles and Orange, California, as its assessment area (AA). The combined AA forms the Los Angeles-Long Beach-Santa Ana Metropolitan Statistical Area (MSA). The AA meets regulatory requirements, has whole census tracts, and does not arbitrarily exclude low- or moderate-income geographies. CFNB operates in a highly competitive banking environment. Most of the competition in the MSA is from Bank of America, N.A.; Wells Fargo, N.A.; Union Bank, N.A.; J.P. Morgan Chase Bank, N.A.; City National Bank; U.S. Bank, N.A.; and Citibank, N.A. CFNB is an Internet-based institution and seeks deposit and credit opportunities nationwide. Therefore, the bank does not focus on any particular local community.

Los Angeles County

Los Angeles County (LAC) includes all metropolitan divisions, political subdivisions, cities, towns, and tracts, which forms the Los Angeles-Long Beach-Glendale Metropolitan Division. LAC is a highly diverse urban area with 88 cities, although most of the County is unincorporated. The County is one of the largest in the nation with 4,083 square miles and includes San Clemente and Santa Catalina Islands. The estimated population is 9.8 million based on the 2010 U.S. Census. LAC has an extensive transportation network, including seaports and airports, freeway systems, mass transit systems, rail systems, and cross-country railroads. LAC covers 70 miles of coastline along the Pacific Ocean. The neighboring counties include Orange to the southeast, Kern to the north, San Bernardino and Riverside to the east, and Ventura to the northwest. The County holds most of the state’s principal cities encompassing the Greater Los Angeles Area.

Table 2a: Los Angeles County Demographic 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	1,035,293	6%**	19%**	26%**	48%**	1%**
Farms	8,187	3%	16%	31%	50%	<1%

Source: Demographic Data – 2000 U.S. Census, 2011 Dun & Bradstreet Data.

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

* Represents families by income level.

** Represents businesses by income level of census tract.

LAC consists of 2,054 census tracts: 9 percent are low-income, 28 percent are moderate-income, 28 percent are middle-income, and 34 percent are upper-income tracts. Approximately 1percent of the geographies are not designated to a specific income level. Most of the low- and moderate-income tracts are located in the southern and central regions of the County with a few larger individual moderate-income tracts located in the northern section. The 2000 Census median housing value was \$240,248. According to DQNews, the median home price in May 2013 was \$410,000. Approximately 46 percent of all housing units are owner occupied. The 2000 weighted average of the median family income was \$53,036. The FFIEC updated the median family income to \$61,900 for 2013. Approximately 15 percent of the households are living below the poverty level.

LAC has a diverse economic base. Historically, the leading industry clusters were tourism and hospitality, professional and business services, entertainment (motion picture and TV production), wholesale distribution, and health services and biomedical. The more recent economy of Los Angeles County is largely technology driven. This sector includes bio-medical, digital information technology, and environmental technology, all of which build on the vibrant technical research capabilities in the County. The County also is the largest manufacturing center in the United States, and the seaports and airports support international trade. The Port of Los Angeles/Long

Beach and the Los Angeles International Airport are two of the busiest transportation networks in the nation. The top employers are Kaiser Permanente; University of California Los Angeles; Northrop Grumman Corporation; University of Southern California; Target Corporation; Kroger Corporation; Cedars Sinai Medical Center; Bank of America Corporation; The Boeing Company; Providence Health Systems, The Home Depot, USA Inc.; and Vons.

The economy in the LAC has shown signs of improvement. Payrolls increased primarily because of a surge in hiring among the motion picture and sound recording firms. Apparel makers also posted modest gains. However, layoffs in technology, manufacturing, and local government have tempered the gains. In April 2013, the unemployment rate dropped below 10 percent for the first time in four years. According to the California Employment Development Department, the seasonally adjusted unemployment rate for the LAC was 9.7 percent for June 2013. However, this is above the unemployment rate of 8.5 percent for the State of California.

An examiner contacted one community development organization that provides credit resources to small businesses in underserved communities in Los Angeles County. The contact stated that high unemployment and low business formations persist in the area. However, increasing credit availability to local small businesses will improve economic conditions through job creation and economic development. The contact also stated that there are numerous opportunities for bank involvement. This includes contributing to small business lending funds and providing technical assistance to small businesses in the area.

Orange County

Orange County (OC) is primarily an urban area, with 34 incorporated cities and several unincorporated areas, which forms the Santa Ana-Anaheim-Irvine Metropolitan Division. OC is the third largest county in California by population and covers 789 square miles of land. The estimated population is 3 million based on the 2010 U.S. Census. OC has extensive transportation facilities including airports, railroads, and freeways. The freeway system connects the county's labor force to employment centers in Los Angeles as well as providing extensive access within county borders. The County has 42 miles of southern California coastline with nine public beaches. The neighboring counties include Los Angeles County to the north, San Diego County to the south, and Riverside and San Bernardino Counties to the east.

Table 2b: Orange County Demographic Description

	Number	Low	Moderate	Middle	Upper	N/A
Tracts	577	4%	27%	33%	36%	<1%
Families	673,912	21%*	18%*	20%*	41%*	0%*
Businesses	368,357	2%**	25%**	34%**	38%**	1%**
Farms	3,788	2%	26%	33%	38%	<1%

Source: Demographic Data – 2000 U.S. Census and 2011 Dun & Bradstreet Data.

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

* Represents families by income level.

** Represents businesses by income level of census tract.

OC consists of 577 census tracts: 4 percent are low-income, 27 percent are moderate-income, 33 percent are middle-income, and 36 percent are upper-income tracts. The low- and moderate-income tracts are located mainly in the central and northwestern parts of the county. The 2000 Census median housing value was \$275,476. According to DQNews, the median home price in May 2013 was \$540,000. Approximately 57 percent of all housing units are owner-occupied. The 2000 weighted average of the median family income was \$69,844. The FFIEC updated the median family income to \$84,100 for 2013. Approximately 9 percent of the households are living below the poverty level.

The County’s economic output and employment is well distributed among the various sectors. OC is known for tourism with attractions such as Disneyland, Knott’s Berry Farm, and several beaches. Orange County also is the headquarters for several Fortune 500 companies, including Ingram Micro, Inc.; First American Financial Corporation; Broadcom Corporation; Western Digital Corporation; and Pacific Life Insurance Company. The major employers include the Walt Disney Company, University of California – Irvine, St. Joseph Health System, Boeing Company, Kaiser Permanente, and Bank of America Corporation.

Technology, tourism, and the renewed housing-related industries are the primary drivers to improve the County’s economy. Private job gains are broadening across industries, and local and state government payrolls are stabilizing. OC’s labor force is expanding. The California Employment Development Department reported that unemployment rate has slipped to 6.5 percent for June 2013. OC’s unemployment rate is one of the lowest among California regional economies and well below the state unemployment rate of 8.5 percent.

An OCC Community Affairs Officer contacted one community development organization that provides neighborhood housing services and products (including neighborhood organizing, affordable rehabilitation loans, and loan counseling services) in Orange County. The organization continues to receive support from the large financial institutions in the area. However, the contact stated that the organization needs more investments from financial institutions for the California Organized Insurance Network

(COIN). Community development financial institutions receive distributions from the COIN for programs that benefit low- and moderate-income individuals and communities.

Conclusions About Performance

Summary

As noted earlier in this evaluation, the bank's overall CRA performance as a wholesale-designated bank is "Satisfactory." The overall level of CFNB's community development activities is adequate. We took into consideration the bank's capacity; its narrow business strategy and related restrictions under its regulatory charter; the number and location of staff; and the available opportunities given those factors.

During this evaluation period, CFNB originated over \$23 million in qualified community development lending and the level of lending exceeds the level during the prior evaluation period. The bank maintains a \$233 thousand mortgage-backed security outstanding from the previous evaluation period that funded mortgages to moderate-income families within the AA. In addition, CFNB also made donations totaling \$74 thousand during the evaluation period. The bank has limited customer activity, and its employees specialize in banking operations that meet the needs of its business strategy. Therefore, service activities have been limited. The bank's president was involved in a community services organization as a board member providing financial technical assistance.

We consider CFNB's use of innovative or complex community development activities as rare. The bank did not originate any highly "innovative" or "complex" community development loans during this evaluation period.

The bank's responsiveness to the credit and community development needs in its AA is adequate. The majority of community development activities were through community development lending that supported qualified community activities and economic development. Investment activities support affordable housing and qualified community services. The community development service activity provided technical activity to an organization serving low- and moderate-income youth.

Qualified Investments

CFNB's level of community development investments is adequate. The bank has a \$233 thousand mortgage-backed security outstanding from the previous evaluation period that funded mortgages to moderate-income families within the AA. CFNB also made donations totaling \$74 thousand during the evaluation period. The donations were primarily to organizations that support low- and moderate-income youth both inside and outside the AA.

Table 3 provides an overview of the bank's community development investments and grants. Table 4 shows the investment activity in relation to the bank's financial capacity.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$ 0	\$0	\$ 0
Originated Grants	69	5	74
Prior-Period Investments that Remain Outstanding	233	0	233
Total Qualified Investments	\$302	\$5	\$307

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.40	0.01	0.41
Total Investments/Average Total Income	1.67	0.03	1.70

Community Development Lending

During the evaluation period, the bank originated a high level of community development leases within the AA. CFNB originated 21 community development leases totaling \$13.3 million. The bank adequately addressed the needs of the AA; therefore, consideration was given to activities outside the AA. The bank originated \$10.0 million of leases outside the state of California. Examples of CFNB's CD leases include:

- CFNB made a lease to a large community medical center that provides medical, dental, and mental healthcare to low-income residents of downtown and South Central Los Angeles. The patients served by the center are the working poor and most often uninsured individuals and families with incomes below the poverty level. The center has been in existence for more than 90 years, and served more than 26,000 clients during 2010.
- The bank made a lease to one of the California branches of a nonprofit organization that provides training and technical assistance for low-income residents of the Silicon Valley. The organization works to move individuals from poverty to income viability through a variety of workforce development strategies. The organization offers more than 20 employment training programs.
- The bank made a lease to an acute care medical facility that provides healthcare to residents in an underserved area of the state. The facility is one of the few hospitals operating in the area, and provides medical services with an emphasis

on emergency and women’s care. The organization is a nonprofit and has been in existence for more than 50 years.

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 (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	17.78	13.37	31.15
Total CD Lending/Average Total Income	72.69	54.68	127.37

Community Development Services

The bank has demonstrated adequate responsiveness to community development needs within the AA through community development services. Given its charter restrictions and limited operating location and staff, 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 AA.

- During the evaluation period, the bank’s president served on the board of a community services organization. While its services are available to the general public, the organization has programs specifically targeted to low- and moderate-income persons including low-income, at-risk youth. As a board member, the bank’s president contributed financial expertise and helped arrange outside financing for programs benefitting low- and moderate-income youth.

Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank’s (bank) or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.

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 MSAs (using the MSA 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 has the potential to benefit the assessment area and is located in the 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.

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 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.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low-or moderate-income geographies;
- (ii) Designated disaster areas; or

- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
- a. Rates of poverty, unemployment, and population loss; or
 - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

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.

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect.

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

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

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)"*]

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.