



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**June 27, 2005**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Coast National Bank  
Charter Number 23222**

**500 Marsh Street  
San Luis Obispo, CA 93401**

**Office of the Comptroller of the Currency  
Western District  
San Francisco Field Office  
One Front Street, Suite 1000  
San Francisco, CA 94111**

**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 COMMUNITY REINVESTMENT ACT (CRA) RATING**

This institution is rated **“SATISFACTORY.”**

Coast National Bank, N.A., satisfactorily meets the credit needs of its assessment area (AA), including low-and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- The bank has a reasonable loan-to-deposit ratio.
- The bank’s lending in its AA exceeds the standard for satisfactory performance.
- The bank’s distribution of loans to businesses of different sizes meets the standard for satisfactory performance.
- The bank's geographic distribution of loans meets the standards for satisfactory performance.
- There were no public complaints about the bank’s CRA performance.

## **DESCRIPTION OF INSTITUTION**

Coast National Bank (CNB) is a community bank that opened in June 1997 and is headquartered in San Luis Obispo, California. Coast Bancorp became the holding company of CNB on May 31, 2001, through a corporate reorganization. In the reorganization, CNB became the wholly-owned subsidiary of Coast Bancorp.

CNB provides full service banking through its headquarters office and four (4) branches located in Arroyo Grande, Morro Bay, Los Osos, and Paso Robles, CA. ATM services are available at each location. The bank also has two (2) loan production offices located in Santa Maria and Santa Barbara, CA. While the bank’s primary loan product is business loans, consumer and home mortgage products are available.

The bank’s last CRA examination was dated September 13, 1999, with a satisfactory rating. There are no legal or financial factors that impede the bank’s ability to help meet the credit needs of its community. As of March 31, 2005, CNB had total assets of \$164 million with \$121 million in loans, which represents net loans to total assets of 74%.

*Please refer to the bank’s CRA public file for more information about the institution*

## **DESCRIPTION OF ASSESSMENT AREA**

The bank’s AA meets the regulation’s requirement and does not arbitrarily exclude low- or moderate-income geographies. It includes 44 census tracts located in the San Luis Obispo-

Atascadero-Paso Robles Metropolitan Statistical Area (MSA). While the 1990 U.S. Census data reflected low- and moderate-income tracts in the bank's AA to be 11.76%, when the 2000 U.S. Census data became effective in January 2003, the census tract designations changed and indicated that the percentage of low- and moderate- income tracts in the AA was 15.91%. In January 2004, the Office of Management and Budget (OMB) changed the census tract designations again, and after this change the percentage of low- and moderate- income tracts in the AA was 18.18%. This area's population is approximately 246,681 according to the 2000 U.S. Census data.

CNB faces competition from 14 banks operating within the assessment area. CNB ranks 9<sup>th</sup> in market share with 3.5%. The three largest banks hold a market share of 58.03%. The competing institutions include, in part, Mid-State Bank & Trust, Washington Mutual Bank, FA; Bank of America, Heritage Oaks Bank, Wells Fargo, First Bank of San Luis Obispo, and Santa Lucia Bank

In conjunction with this CRA examination, we conducted a community contact interview with a representative from a small business development center to learn about credit opportunities within the community and whether financial institutions address the credit and service needs of the community. The representative did not identify any opportunities for bank's to participate.

*Please refer to the bank's CRA public file for more information about the assessment areas.*

## **DETERMINATION OF PRIMARY LOAN PRODUCTS**

Table 1 reflects the bank's loan portfolio by number and dollar volume.

Table 1

<b>Coast National Bank Loan Portfolio Composition As of 6/27/2005</b>				
<b>Loan Type</b>	<b>Number</b>	<b>Percentage</b>	<b>Dollar (000)*</b>	<b>Percentage</b>
<b>Business Loans</b>	<b>561</b>	<b>67.8%</b>	<b>\$103,051,260</b>	<b>79%</b>
<b>Home Loans</b>	<b>147</b>	<b>17.8%</b>	<b>\$20,249,914</b>	<b>16%</b>
<b>Consumer Loans</b>	<b>113</b>	<b>13.7%</b>	<b>\$4,841,535</b>	<b>4%</b>
<b>Farm Loans</b>	<b>6</b>	<b>.7%</b>	<b>\$1,859,628</b>	<b>1%</b>
<b>TOTAL</b>	<b>827</b>	<b>100%</b>	<b>\$130,002,337</b>	<b>100%</b>

*Source: Bank data*

*\*Reflects total commitment amount.*

Business loans are the bank's primary loan product. As such, we analyzed a random selection of business loans for this performance evaluation. We analyzed loans originated between September 13, 1999 and December 31, 2004.

We compared loans originated from 1999 to 2002 to the 1990 U.S. Census data, and we compared loans originated in 2003 and 2004 to the 2000 U.S. Census data. We used separate census data because the 2000 census data became effective in January 2003 and changed

boundaries and income levels of many existing census tracts, deleted some census tracts, and created new ones.

In 2004, the 2000 census data reflected updates from the Census and the Office of Management and Budget (OMB). These updates reflected new MSA definitions and boundaries. We compared loans that originated in 2004 to the updated 2000 U.S. Census data.

## CONCLUSIONS ABOUT PERFORMANCE CRITERIA

### LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The level of lending is reasonable given the bank's size, area credit needs, and the competitive banking market. We analyzed the bank's quarterly LTD ratio from September 1999 through March 2005. During this period, the LTD ranged from a low of 61% to a high of 86%, with an average of 76%. We compared the bank's average ratio to that of four peer banks of comparable asset size that operate in the same assessment area. The peer group's quarterly LTD over the same time period averaged 77%. The bank's average ratio was slightly lower than the peer group average and met the standard for satisfactory performance.

### LENDING IN THE ASSESSMENT AREA

The bank's record of lending within the assessment area exceeds the standard for satisfactory performance.

Table 2

Coast National Bank Lending in the San Luis Obispo-Atascadero-Paso Robles MSA								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	19	95%	1	5%	\$5,402,343	98%	100,000	2%
<b>Totals</b>	<b>19</b>	<b>95%</b>	<b>1</b>	<b>5%</b>	<b>\$5,402,343</b>	<b>98%</b>	<b>\$100,000</b>	<b>2%</b>

Source: Sample of 20 business loans originated from September 13, 1999 to December 31, 2004

A significant majority of the bank's loans originated within its defined assessment area. For this performance criterion, we randomly sampled 20 business loans originated during the evaluation period. Table 2 indicates the bank originated 95% of the number and 98% of the dollar volume of loans within the defined assessment areas.

### LENDING TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans to businesses of different sizes meets the standard for satisfactory performance. (Businesses with annual revenues of \$1 million dollars or less are deemed to be small businesses.)

Our analysis included a random sample of 60 business loans originated within the bank's assessment area. As noted above, we selected this loan product for review because it was the bank's primary product line.

The following table displays the bank's lending practices based on our loan sample of business borrowers.

Table 3

<b>Income Distribution-Loans to Businesses Loans Originated Between 1999 and 2002 San Luis Obispo-Atascadero-Paso Robles MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	75%	5%	20%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	85%	15%	0%	100%

*Demographic Data Source: 2002 Dun and Bradstreet .*

Based on our sample, the bank originated a majority number of loans by number and a significant number of loans by dollar amount to small businesses. The resulting percentage was 75% and 85%, respectively. The number of loans mirrored the area demographics and the dollar amount to small businesses exceeded the 2002 Dun and Bradstreet Data that shows 75% of reporting businesses having gross annual revenues of \$1 million or less.

The following table displays the bank's lending practices based on our sample of 2003 business borrowers.

Table 4

<b>Income Distribution-Loans to Businesses Loans Originated During 2003 San Luis Obispo-Atascadero-Paso Robles MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	68%	5%	27%	100%
% of Bank Loans in AA by #	75%	25%	0%	100%
% of Bank Loans in AA by \$	86%	14%	0%	100%

*Demographic Data Source: 2003 Dun and Bradstreet*

Based on our sample, the bank originated a significant number of loans by number and by dollar volume to small businesses. The resulting percentage was 75% and 86%, respectively. The dollar amount and number of loans to small businesses exceeded the 2003 Dun and Bradstreet

Data that shows 68% of reporting businesses having gross annual revenues of \$1 million or less.

The following table displays the bank’s lending practices based on our sample of 2004 business borrowers.

Table 5

<b>Income Distribution-Loans to Businesses</b> <b>Loans Originated During 2004</b> <b>San Luis Obispo-Atascadero-Paso Robles MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	69%	5%	26%	100%
% of Bank Loans in AA by #	65%	35%	0%	100%
% of Bank Loans in AA by \$	42%	58%	0%	100%

*Demographic Data Source: 2004 Dun and Bradstreet*

As the table above shows, the percentage of small businesses within the San Luis Obispo-Atascadero- Paso Robles MSA is 69%. Based on our sample, the bank’s distribution of business loans to businesses with revenues less than \$1 million or less mirrored the area demographics by number, but was significantly below the 2004 Dun and Bradstreet data. The bank originated 65% of the number of loans to small businesses and 42% by dollar volume. While the dollar volume was significantly below the area demographics, we place more emphasis on the number of loans percentage, which focuses on the bank’s performance in actually making loans to small businesses rather than the amount of the loan.

## **GEOGRAPHIC DISTRIBUTION OF LOANS**

The bank's geographic distribution of loans meets the standard for satisfactory performance and reflects satisfactory dispersion throughout the AA.

We reviewed the pattern for geographic distribution of lending in low- and moderate-income tracts within the AA. Dun & Bradstreet demographics track where businesses are located based on U.S. Census information. Table 6 details the bank's commercial lending activity within the assessment area. We used the same sample of commercial loans from the **Lending to Businesses of Different Sizes** section of this performance evaluation.

Table 6

<b>Geographic Distribution of Loans to Businesses Loans Originated Between 1999 through 2004 San Luis Obispo-Atascadero-Paso Robles MSA</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>	<b>% of AA Businesses</b>	<b>% of Number of Loans</b>
1999-2002 Sample <sup>1</sup>	0%	0%	12%	15%	68%	75%	12%	10%
2003 Sample <sup>2</sup>	0%	0%	16%	15%	70%	65%	11%	20%
2004 Sample <sup>3</sup>	0%	0%	18%	10%	68%	75%	11%	15%

*Demographic Data Source: <sup>1</sup> 2002 Dun and Bradstreet, <sup>2</sup> 2003 Dun and Bradstreet, <sup>3</sup> 2004 Dun and Bradstreet*

Table 6 reflects that in the loans that originated between 1999 and 2002, 15% of the bank’s business borrowers were located in moderate-income census tracts, which exceeded the area demographics of 12%. In 2003, 15% of the bank’s business borrowers were located in moderate-income census tracts, which mirrored the area demographics of 16%. In 2004, 10% of businesses were located in moderate-income census tracts, which was below the area demographics of 18%. While this level is below the area demographics, this penetration is reasonable in the context of the bank’s size and competition. CNB faces competition with 8 other banks that are larger and have more branches. CNB has only 3.50% of the market share.

### **Responses to Complaints**

No consumer complaints associated with the bank’s performance under the provisions of the CRA have been made during the assessment period.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of illegal discrimination or other illegal credit practices. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the bank’s compliance with fair lending laws is satisfactory.