



SMALL BANK

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

PUBLIC DISCLOSURE

May 29, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South County Bank, National Association
Charter Number 23801**

**22342 Avenida Empresa
Rancho Santa Margarita, CA 92688**

**Office of the 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 "Outstanding."

The primary factors supporting this rating are:

- ◆ The bank originated or purchased a substantial majority of its loans during the evaluation period (2005 and 2006) within its delineated CRA assessment areas (AA).
- ◆ The geographic distribution of loans reflects excellent dispersion throughout the AAs. In particular, the bank achieved excellent distribution in low- and moderate-income census tracts in both areas.
- ◆ Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need.
- ◆ The loan-to-deposit ratio is reasonable for the bank's size, financial condition, and area credit needs.

DESCRIPTION OF INSTITUTION

South County Bank, National Association is a full-service commercial bank headquartered in Rancho Santa Margarita, California. The bank is wholly owned by CalWest Bancorp, a one-bank holding company.

The bank provides community access to credit at its six branch offices. Since the last CRA examination, the bank opened five new offices in addition to its main office. Three of these offices are in Orange County in the cities of Laguna Beach, Irvine, and Huntington Beach. The Huntington Beach branch operates under the name of Surf City Bank, a division of South County Bank (not an affiliate). Another two branches are located in the cities of Moreno Valley and Redlands in Riverside and San Bernardino counties, respectively. These offices operate as Inland Valley Bank, a division of South County Bank. The Huntington Beach and Redlands offices opened recently in 2007.

The bank maintains ten automatic teller machines (ATM). These include one ATM at each of the branch offices, except for the Redlands office. The remaining ATMs include two at retail locations in Rancho Santa Margarita, and one each at Concordia University in Irvine, Crafton Hills College in Yucaipa, and Saddleback Church in Lake Forest. The bank also offers online banking services on its Internet website.

Currently, no financial or legal impediments hinder the bank's ability to meet the credit needs of the communities it serves. As of December 31, 2006, the bank had total assets of \$171 million, net loans of \$93 million (54% of total assets), and total deposits of \$138 million. The primary business focus is commercial lending. Commercial real estate, construction, and business loans comprise 93% of the total loan portfolio.

The following chart reflects the loan portfolio by major product type.

LOAN PORTFOLIO COMPOSITION		
As of December 31, 2006		
Loan Product	Amount Outstanding (000)	% of Total Loans
Commercial Real Estate and Construction	\$ 50,563	53%
Commercial-Industrial	37,428	40%
Other Commercial/Real-estate secured	4,957	5%
Consumer	2,127	2%
Total:	\$ 95,075	100%

Source: December 31, 2006 Report of Condition and Income

The last CRA evaluation conducted as of March 2002 rated the bank as “Satisfactory.”

DESCRIPTION OF THE ASSESSMENT AREAS

South County Bank has two AAs, which meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies. Since the last CRA examination, the bank has grown and expanded its CRA delineated area to include portions of the Riverside-San Bernardino MSA. The Orange County AA consists of the 577 contiguous census tracts that comprise the entire Santa Ana-Anaheim-Irvine Metropolitan Statistical Area (MSA). The Riverside-San Bernardino AA consists of 428 adjacent and contiguous census tracts that comprise the western portion of the Riverside-San Bernardino MSA

Orange County Assessment Area

Orange County is situated in Southern California, and is bounded by the counties of Los Angeles to the north, San Diego to the south, Riverside to the east, and by the Pacific Ocean to the west.

Orange County has a diverse economy and low unemployment. The California Employment Development Department (CAEDD) reported an April 2007 unemployment rate of 3.5% in Orange County, which is much lower than the state unemployment rate of 5.1%. Major employers include Boeing, the University of California, Irvine, and California State University, Fullerton. The employed labor force at April 2007 was approximately 1.6 million with expected net job growth of 1.3% for the year centered in leisure and recreation, business and professional enterprises, and administrative services.

According to the 2000 U.S. Census, the population in Orange County was 2,846,289. Median housing value in the area was \$275,476 with 62% of all housing units owner-occupied. The *Orange County Register* reported the 2006 median home value at \$627,000. The 2006 HUD updated the median family income was \$78,300. Dun & Bradstreet 2006 economic data reflect that small businesses with annual revenues of less than \$1 million represent the majority of the number of businesses in the area.

Census tract composition of the Orange County area consists of 4% low-income tracts, 27% moderate-income tracts, 33% middle-income tracts and 36% upper-income tracts. The low- and moderate-income (LMI) tracts are located mainly in the central and northern parts of the county.

Examiners contacted two community organizations to determine primary credit needs in the area. One organization focuses on providing small-sized loans to small businesses in underserved and LMI areas, as well as businesses owned by women and minorities. Another organization focuses on loans that help LMI families to purchase homes. These contacts stressed that ongoing community credit needs include small business loans and financing for affordable housing.

Riverside-San Bernardino Assessment Area

The Riverside-San Bernardino AA is bounded by Los Angeles and Orange county lines to the west, the San Gabriel and San Bernardino mountain ranges to the north, and the San Jacinto Mountains to the east. The eastern boundary runs southerly through the foothills to the San Diego county line.

The local economy is strong and expected to experience moderate growth in 2007. Per Business Geodemographic Data, the largest labor markets are in services (36%) and retail trade (16%). The CAEDD reported an unemployment rate of 4.5% in the Inland Empire as of February 2007. Job growth is projected at 2.9%, which has slowed somewhat due to the contraction in residential construction and its impact on population growth and related activity.

According to the 2000 U.S. Census, the population in the Riverside-San Bernardino AA was 2,468,576. Median housing value in the area was \$134,996 with 59% of total housing units owner-occupied. For the first quarter of 2007, the National Association of Realtors reported the median housing value as \$404,000. The 2000 Census median family income in the area was \$47,448. The 2006 HUD updated median family income was \$57,500. Dun & Bradstreet 2006 economic data reports that small businesses with annual revenues of less than \$1 million represent the majority of the number of businesses in the area.

Census tract composition of the Riverside-San Bernardino defined area consists of 5% low-income tracts, 26% moderate-income tracts, 40% middle-income tracts and 29% upper-income tracts. The LMI tracts are variously dispersed, with some concentration in the northern and central parts of the AA.

Examiners contacted two community organizations to determine primary credit needs in the area. One organization focuses on assisting small businesses that may not otherwise qualify for traditional bank financing. Another organization focuses on providing services in housing, mortgage, and rental assistance targeted at low and very low-income residents of Riverside County. The contacts stressed the ongoing need for small business loans with flexible underwriting criteria and the need for affordable housing.

The banking environment in both AAs is highly competitive with direct competition from branches of large- and mid-size banks, as well as independent community banks. Major competitors in Orange County include Wells Fargo Bank, Pacific Western Bank, Commerce West Bank, Pacific Mercantile Bank, and Orange County Business Bank. In Riverside and San Bernardino counties, South County Bank also competes with Inland Empire National Bank, Inland Community National Bank, and Citizens Business Bank.

[Sources: California Employment Development Department, www.edd.ca.gov; United States 2000 Census; UCLA Anderson Forecast, Orange County Economic Outlook for 2007; Inland Empire Quarterly Economic Report of April 2007; and City of Rancho Santa Margarita website]

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

To evaluate the bank's commitment to the Community Reinvestment Act, we analyzed the performance criteria described below.

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and credit needs of the area. We evaluated the quarterly average loan-to-deposit (LTD) ratio over the last nineteen quarters since the last CRA examination. The bank's quarterly average LTD ratio is 65%. The ratio is somewhat lower than the 73% quarterly average ratio of similarly situated banks (banks with similar asset size and located in the Orange County and Riverside-San Bernardino MSAs). The bank's level of lending is increasing as the newer branches establish market presence in their respective locations. During the evaluation period, the bank's average loan-to-deposit ratio increased from 52% at December 2005 to 67% at December 2006. At March 31, 2007, the ratio increased to 75%.

Lending in Assessment Areas

South County Bank granted a substantial majority of the number and dollar volume of its loans within its delineated AAs. For this analysis, we reviewed a random sample of 27 commercial loans originated or purchased in 2005 and 2006. We sampled commercial loans because they represent the bank's primary loan product. Based on the sample, the bank originated or purchased 89% of the number and 59% of the dollar volume of loans within the defined areas. We gave greater consideration to the number of loans in our evaluation because it reflects the bank's commitment to meeting the credit needs of a significant number of borrowers within the defined areas.

The following table reflects the number and dollar volume of loans the bank originated or purchased inside and outside its defined areas based on our sample.

Table 1 - Lending within the Assessment Areas 2005 – 2006										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000's)
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Commercial loans	24	89%	3	11%	27	\$5,749	59%	\$3,930	41%	\$9,679

**Source: Random sample of commercial loans*

Lending to Borrowers of Different Incomes and to Businesses of Different Sizes

Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need. We did not analyze consumer lending to borrowers of different income levels because the bank is primarily a commercial lender, and consumer lending is not a significant activity.

Orange County Assessment Area

Lending patterns reflect good penetration among businesses of different sizes in the Orange County AA. We randomly sampled 20 commercial loans the bank originated or purchased in the AA during the evaluation period. The bank originated a substantial majority of loans, 65% of the number and 54% of the dollar volume, to small businesses (having gross annual revenues of \$1 million or less). The percentage of the number and dollar volume granted to small businesses compares favorably with the number of small businesses in the area. We placed greater emphasis on the number of loans made because it reflects the bank's commitment to serve a greater number of businesses.

The following table reflects lending patterns to businesses of different sizes based on our sample.

Table 2a - Borrower Distribution of Loans to Businesses Orange County Assessment Area 2005 - 2006		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	67%	6%
% of Bank Loans in AA by #	65%	35%
% of Bank Loans in AA by \$	54%	46%

** Demographic Data Source: 2006 Dun & Bradstreet - 27% of AA businesses did not report revenue data*

Riverside-San Bernardino Assessment Area

Lending patterns reflect reasonable penetration among businesses of different sizes in the Riverside-San Bernardino AA. We randomly sampled 20 commercial loans the bank originated or purchased in the AA during the evaluation period. The bank granted 35% of the number and 30% of the dollar volume of loans to small businesses (having gross annual revenues of \$1 million or less) based on our sample. The bank recently opened three offices, and they are still establishing their market presence, which accounts for the lower level of lending to small businesses in the AA compared to the number of small businesses.

The following table reflects lending patterns to businesses of different sizes based on our sample.

Table 2b - Borrower Distribution of Loans to Businesses Riverside-San Bernardino Assessment Area 2005 - 2006		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	67%	6%
% of Bank Loans in AA by #	35%	65%
% of Bank Loans in AA by \$	30%	70%

** Demographic Data Source: 2006 Dun & Bradstreet - 27% of AA businesses did not report revenue data*

Geographic Distribution of Loans

The geographic distribution of loans reflects excellent dispersion throughout both AAs. In particular, the bank achieved excellent distribution in low- and moderate-income census tracts in both areas.

Orange County Assessment Area

Lending patterns reflect good penetration among businesses of different sizes in the Orange County AA. Based on our random sample of 20 commercial loans, the percentage of commercial loans (by number) originated in low-income census tracts exceeds the percentage of businesses in low-income census tracts in the AA. Commercial loans originated in low-income census tracts represented 5% (by number) of the loans originated, compared to 4% of businesses located in low-income census tracts in the AA. The percentage of commercial loans (by number) originated in moderate-income census tracts substantially exceeds the percentage of businesses in moderate-income census tracts. The bank originated 50% of the loans (by number) in moderate-income census tracts, compared to 29% of businesses located in those areas.

The following table reflects the geographic distribution of the bank's business loans by census tract category based on our sample.

Table 3a - Geographic Distribution of Loans to Businesses Orange County Assessment Area 2005 - 2006								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loan Sample	4%	5%	29%	50%	35%	25%	32%	20%

**Demographic Data Source: 2006 Dun & Bradstreet; Loan sample.*

Riverside-San Bernardino Assessment Area

Based on the loan sample, the percentage of commercial loans by number originated or purchased in low-income census tracts substantially exceeds the percentage of businesses in low-income census tracts in the AA. Commercial loans originated in low-income census tracts represented 10% (by number) of the loans originated, compared to 4% of businesses located in low-income census tracts in the AA. The percentage of business loans (by number) originated in moderate-income census tracts also exceeds the percentage of businesses in moderate-income census tracts. The bank originated 30% of the loans (by number) in moderate-income census tracts, compared to 27% of businesses located in those areas.

The following table reflects the geographic distribution of the bank's business loans by census tract category based on our sample.

Table 3b Geographic Distribution of Loans to Businesses Riverside-San Bernardino Assessment Area 2005 - 2006								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loan Sample	4%	10%	27%	30%	40%	35%	29%	25%

**Demographic Data Source: 2006 Dun & Bradstreet; Loan sample.*

Community Development Activities

In addition to the lending performance presented above, South County Bank actively participates in community development organizations. The bank is involved in a number of projects that promote economic development and that benefit low- and moderate-income persons.

- During the evaluation period, the bank originated a \$200,000 loan to an organization providing emergency, transitional, and permanent housing, as well as education, counseling, and job training targeted to the homeless and other low-income persons. The loan proceeds financed the purchase of transitional housing units located in a moderate-income census tract.
- The bank is actively involved in a number of local community-based organizations that help meet the needs of small businesses and LMI persons. The bank commits significant time and resources to programs that provide services within its AAs.
 - A senior bank officer serves as member of the Lenders' Advisory Council of Neighborhood Partnership Housing Services, Inc. in Ontario. This non-profit organization primarily targets low- and moderate-income seniors, minorities, and first-time homebuyers with a broad range of services, including home improvement loans, homeownership training and counseling, and purchase/rehabilitation projects. The organization also has a "safe homes for seniors" program that provides free safety items to low-income seniors.
 - A bank officer serves on the loan committee of Small Business Financial Development Corporation of Orange County, a local administrator for the State of California loan guaranty program. The loan committee meets as needed to review loan applications from businesses, in particular small businesses, women- and minority-owned businesses, and LMI individuals.
 - Two bank officers serve as co-chair and member of the loan committee of Inland Empire Small Business Financial Development Corporation. The organization administers the State of California loan guaranty program for the Inland Empire region. The program targets primarily small businesses, women- and minority-owned businesses, many of which are in LMI areas.

Responses to Complaints

South County Bank has received no complaints about its performance under the Community Reinvestment Act during this evaluation period.

Fair Lending or Other Illegal Credit Practices Review

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