



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**November 29, 2004**

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

**Calnet Business Bank, National Association  
Charter Number 24102**

**1565 Exposition Boulevard  
Sacramento, CA 95815**

**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"**.

Calnet Business Bank (CBB) 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's quarterly average loan-to-deposit ratio is reasonable.
- A substantial majority of loans are in the bank's AA.
- The distribution of loans reflects excellent penetration among businesses of different sizes.
- The geographic distribution of loans reflects reasonable dispersion in the AA.
- There were no public complaints about the bank's CRA performance.

## **DESCRIPTION OF INSTITUTION**

Calnet Business Bank (CBB) is an independent community bank that opened on November 5, 2001 and is located in Sacramento, California. There are no branch offices. The bank is predominately a commercial lender. While CBB's primary banking focus is in serving the business community in their AA, consumer products are available. The bank's primary loan product is business loans.

There are no legal or financial factors that impede the bank's ability to help meet the credit needs of its community. As of September 30, 2004, CBB had total assets of \$124 million with \$78 million in loans, which represents net loans to total assets of 63%. This is CBB's first CRA examination.

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

## **DESCRIPTION OF ASSESSMENT AREA**

The bank's AA encompasses the entire Sacramento-Arden-Arcade Metropolitan Statistical Area (MSA), which contains 403 census tracts. The 1990 and 2000 U.S. Census data indicate the percentage of low- and moderate- income tracts in the AA is 27% and 32%, respectively. The AA meets the regulation's requirement and does not arbitrarily exclude low- or moderate-income geographies.

The population in this AA is approximately 1.8 million according to the 2000 U.S. Census data and the services industry is the center of activity.

Competition within the AA is strong. The competing institutions include larger community banks, savings and thrift associations, credit unions, and larger multi-national banks.

In conjunction with this CRA examination, we conducted a community contact interview with a representative from a community development corporation to learn about credit opportunities within the community and whether financial institutions address the credit and service needs of the community. The representative stated there is a need for affordable housing.

*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>Calnet Business Bank Loan Portfolio Composition As of November 30, 2004</b>				
<b>Loan Type</b>	<b>Number</b>	<b>Percentage</b>	<b>Dollar (000)*</b>	<b>Percentage</b>
<b>Business Loans</b>	<b>286</b>	<b>85.9%</b>	<b>160,884,953</b>	<b>94.7%</b>
<b>Home Loans</b>	<b>32</b>	<b>9.6%</b>	<b>7,870,661</b>	<b>4.63%</b>
<b>Farm Loans</b>	<b>1</b>	<b>0.3%</b>	<b>90,500</b>	<b>.05%</b>
<b>Consumer Loans</b>	<b>14</b>	<b>4.2%</b>	<b>1,059,000</b>	<b>.62%</b>
<b>TOTAL</b>	<b>333</b>	<b>100.0%</b>	<b>169,905,114</b>	<b>100.00%</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, which included loans originated between November 5, 2001 and November 30, 2004.

We compared loans originated between 2001 through 2002 to the 1990 U.S. Census data. 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.

## **CONCLUSIONS WITH RESPECT TO 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 December 2001 through June 2004. During this period, the LTD ranged from a low of 22% to a high of 85%, with an average of 69%. We

compared the bank's average ratio to that of five 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 73%. The bank's average ratio is consistent with the peer group average and meets 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

<b>Calnet Business Bank Lending in the Sacramento MSA</b>									
Loan Type	Number of Loans				Dollars of Loans				
	Inside		Outside		Inside		Outside		
	#	%	#	%	\$	%	\$	%	
Business Loans	22	88%	3	12%	\$10,391,444	85%	\$1,859,750	15%	
<b>Totals</b>	<b>22</b>	<b>88%</b>	<b>3</b>	<b>12%</b>	<b>\$10,391,444</b>	<b>85%</b>	<b>\$1,859,750</b>	<b>15%</b>	

Source: Sample of 25 business loans originated from November 5, 2001 to November 30, 2004

A substantial majority of the bank's loans originated within its defined assessment area. For this performance criterion, we randomly sampled 25 business loans originated during the evaluation period. Table 2 indicates the bank originated 88% of the number and 85% 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 exceeds 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 25 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 2001 and 2002 business borrowers.

Table 3

<b>Income Distribution of 2001 and 2002 Loans to Businesses in the Sacramento MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	72%	6%	22%	100%
% of Bank Loans in AA by #	83%	17%	0%	100%
% of Bank Loans in AA by \$	78%	22%	0%	100%

Demographic Data Source: 2002 Business Geodemographic Data

Based on our sample, the bank originated a significant number of loans by number and dollar amount to small businesses. The resulting percentage was 83% and 78%, respectively. This exceeds the 2002 Business Geodemographic Data that shows 72% of reporting businesses had gross annual revenues of \$1 million or less.

The following table displays the bank’s lending practices based on our sample of 2003 and 2004 business borrowers.

Table 4

<b>Income Distribution of 2003 and 2004 Loans to Businesses in the Sacramento MSA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Businesses	65%	5%	30%	100%
% of Bank Loans in AA by #	74%	26%	0%	100%
% of Bank Loans in AA by \$	70%	30%	0%	100%

*Demographic Data Source: 2004 Business Geodemographic Data*

Based on our sample, the bank originated a significant number of loans by number and dollar volume to small businesses. The resulting percentage was 74% and 70%, respectively. This exceeds the 2004 Business Geodemographic Data that shows 65% of reporting businesses had gross annual revenues of \$1 million or less.

## GEOGRAPHIC DISTRIBUTION OF LOANS

The bank's geographic distribution of loans meets the standard for satisfactory performance. The loan distribution reflects reasonable dispersion throughout the AA. We used the same sample of business loans used in the analysis of **“Lending to Businesses of Different Sizes.”**

Table 5 details the geographic distribution of the bank’s business loans in the Sacramento MSA.

Table 5

<b>Geographic Distribution of Loans to Businesses in the Sacramento MSA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% 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
2001 - 2002 Sample <sup>1</sup>	4.92%	0%	19.95%	50%	46.42%	16.67%	28.71%	33.33%
2003 - 2004 Sample <sup>2</sup>	7.77%	26%	24.04%	32%	39.33%	10.00%	28.86%	32.00%

*Demographic Data Source: <sup>1</sup> 2002 Business Geodemographic Data <sup>2</sup> 2004 Business Geodemographic Data*

Table 5 reflects that in 2001 and 2002, 4.92% of businesses were located in low-income tracts and 19.95% of businesses were located in moderate-income tracts. In comparison, none of the bank’s business borrowers were located in low-income tracts. However, 50% of the bank’s

business borrowers were located in moderate-income tracts. While lending in moderate-income tracts was significantly above the demographics of the assessment area, lending in low-income tracts was poor. However, this is understandable given the fact that during the bank's first year of operations, the bank's strategy was focused on growing the bank. As the bank's presence increased in the AA, the bank's performance in low-income tracts improved.

In 2003 and 2004, 7.77% of businesses were located in low-income tracts and 24.04% were located in moderate-income tracts. In comparison, 26% of the bank's business borrowers were located in low-income tracts and 32% of the bank's business borrowers were located in moderate-income tracts. This reflects excellent penetration in LMI tracts.

## **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.