



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 5, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Borrego Springs Bank, National Association
Charter Number 23162

547 Palm Canyon Road
Borrego Springs, CA 92004

Office of the Comptroller of the Currency

Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
Carlsbad, CA 92008-6526

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.

- Lending patterns reflect satisfactory penetration among businesses of different sizes. Lending to small businesses, which is an identified community credit need, compares favorably to area demographics.
- The geographic distribution of loans compares satisfactorily with assessment area demographics, particularly in moderate-income census tracts.
- The loan-to-deposit ratio is reasonable given the bank's size, business strategies, financial condition, and area credit needs.
- The bank has received no complaints about its performance in helping to meet the credit needs of its assessment area.

Since the last CRA examination, the bank did not originate a majority of the number and dollar volume of its loans within its defined assessment area. The bank operates a number of loan production offices outside its assessment area for the purpose of producing Small Business Administration loans. This business strategy negatively impacted the volume of loans originated within the assessment area. Management recognizes this and is taking reasonable steps to increase the bank's volume of lending within its defined assessment area.

SCOPE OF EXAMINATION

We evaluated performance using the lending test criteria in the CRA regulation for small bank examinations. We analyzed a random sample of commercial loans the bank originated or purchased between January 1, 2003, and December 31, 2007. We focused our review on commercial loans because they represent the bank's primary lending activity.

DESCRIPTION OF INSTITUTION

Borrego Springs Bank, N.A., is a full service commercial bank headquartered in Borrego Springs, California. The Viejas Band of Kumeyaay Indians purchased its initial ownership position in Borrego Springs Bank in 1996, making it the first Native American-owned bank in California. Since the last CRA examination, the Viejas Band of Kumeyaay Indians formed American Heritage Holdings, which is now the sole owner of Borrego Springs Bank. The bank is a federally designated "Minority Deposit Institution," which enables other financial institutions to make qualified CRA community development investments through deposits they place at Borrego Springs Bank.

The bank has three full service branches: the Borrego Springs main office, located in a

moderate-income census tract, and the La Mesa and Alpine branches, each located in middle-income census tracts. There are 18 Indian reservations within the bank's assessment area, and the Alpine branch is located on the Viejas Indian reservation. The bank maintains an automatic teller machine (ATM) at each of its three branches. There have been no branch closures since the last CRA examination.

The primary business focus remains Small Business Administration (SBA) lending. The bank currently operates 11 loan production offices throughout the country that generate SBA loans. All are located outside the bank's assessment area with the exception of SBA lending functions housed at the La Mesa office.

In October 2007, the bank expanded credit services to small businesses by opening a "SBA Community Express" division. The SBA Community Express program provides small loans in amounts up to \$50,000 for small businesses. To qualify, applicants must be small businesses located in low- and moderate-income census tracts (among other qualifying factors). During the CRA evaluation period, the bank opened a loan production office in Florida to generate loans under this program nationwide. More recently, management signed contracts with "technical assistance providers" within the bank's own assessment area to refer qualifying applicants to Borrego Springs Bank. Management took this proactive step to help ensure the bank increases its volume of lending within its assessment area.

Further demonstrating its solid commitment to community reinvestment, the bank granted full principal and interest moratoriums for several months on five loans to borrowers whose properties suffered devastation in hurricane Katrina disaster areas. The bank waived all late charges and penalties on loans to its borrowers affected by the disaster. In addition, the bank waived its rights to insurance recovery funds to assist a borrower who lost a home and a business in the disaster.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of December 31, 2007, the bank reported total assets of \$81 million, net loans of \$60 million (74 percent of total assets), and total deposits of \$69 million. SBA loans comprise 63 percent of the portfolio.

Loan Portfolio Composition December 31, 2007		
Loan Type	\$ Volume (000)	% of Portfolio
SBA - 7a	25,887	43%
Commercial Real Estate	17,500	29%
SBA – 504	10,117	17%
Commercial Business	4,224	7%
SBA – Community Express	1,568	3%
Consumer	344	<1%
Residential Real Estate Secured	137	<1%
Total:	\$59,777	100%

* Source: December 31, 2007 Report of Condition and Income

DESCRIPTION OF ASSESSMENT AREA

Borrego Springs Bank's assessment area meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The defined area consists of the 605 census tracts that comprise San Diego County, Metropolitan Statistical Area (MSA) 7320. Population in the area was 2,813,833 according to the 2000 U.S. Census Bureau. Per the California Employment Development Department (CEDD), the 2007 population was 3,098,269. The median housing value in the area according to the Census is \$229,602. The CEDD reports a more recent figure of \$394,000 as of March 2008. Approximately 53 percent of all housing units are owner-occupied. The median household income is \$64,900. Of the 605 census tracts, 8 percent are low-income, 23 percent are moderate-income, 38 percent are middle-income and 31 percent are upper-income. The low- and moderate-income tracts are located primarily in the central part of the county, with a small portion to the north and near the international border.

The San Diego economy has slowed somewhat, reflective of the nation's economic slowdown over the past year. In particular, there has been a decrease in middle-class jobs as San Diego has evolved from an aerospace hub into an active center for biotechnology. The unemployment rate as of March 2008 is 5.3 percent, below the state unemployment rate of 6.4 percent, but in line with the national unemployment rate of 5.2 percent. Major employers in San Diego include health service-related businesses. In 2007, services accounted for 39 percent of all jobs in San Diego. On a combined basis, retail trade, finance, insurance, real estate, and other miscellaneous "non-classifiable" establishments, accounted for another 41 percent of jobs in the area. [Source: California Employment Development Department, March 2008]

The banking environment is highly competitive with direct competition from large and mid-size bank branches, and several independent community banks. Major competitors in San Diego County include Washington Mutual, Wells Fargo, and Bank of America. Because the bank is primarily a SBA lender, direct competition is from other SBA lenders in the assessment area. These include Temecula Valley Bank, Pacific Western Bank, Excel National Bank, and Pacific Commerce Bank.

Examiners contacted community organizations in the San Diego-Carlsbad-San Marcos MSA to assess community credit needs. These organizations focus on housing and economic development issues in the area. Identified credit needs include housing, small business lending and support for small business expansion.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

Borrego Spring Bank's loan-to-deposit (LTD) ratio is reasonable given its size, business strategies, and the highly competitive banking environment. We evaluated the bank's quarterly average LTD ratio over the last 20 quarters since the last CRA examination. During this period, the quarterly LTD ratio averaged 58 percent. We compared the ratio

to that of five peer banks (similar in asset size and headquartered in the San Diego MSA). Over the same period, the LTD ratio of peer banks averaged 80 percent. During the four most recent quarters of the evaluation period, Borrego Spring Bank's quarterly LTD ratio improved, ranging upward from 69 percent at March 31, 2007, to 87 percent at December 31, 2007.

Historically, Borrego Springs Bank has been a highly active SBA lender and sells portions of those loans once originated. While serving the credit needs of small businesses, these loan sales result in significant fluctuations in the bank's LTD ratio over time. For example, if off-balance sheet loans (SBA loans originated, then sold and serviced) were included in the calculation, the bank's LTD ratio would be 193 percent at December 31, 2007.

Lending in Assessment Area

Borrego Springs Bank did not originate or purchase a majority of the number or dollar volume of its loans within its defined assessment area during the evaluation period. The percentages by number and dollar fall below the standard for satisfactory performance for this criterion.

For this analysis, we randomly sampled 31 commercial loans the bank originated or purchased during the evaluation period. We sampled commercial loans, including SBA loans, since they represent the bank's primary lending activity. Based on the sample, the bank originated 48 percent of the number and 49 percent of the dollar volume of loans within the defined assessment area. Market area competition, and particularly strong competition among SBA lenders in the area, contributed to this result. As explained in the "Description of the Institution," management has taken reasonable and proactive steps to improve the volume of lending inside the assessment area.

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

Lending in the Assessment Area January 1, 2003 through December 31, 2007										
	Number of Loans				Total #	Dollar of Loans				Total \$ (000's)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Commercial Loan Sample	15	48%	16	52%	31	\$4,277	49%	\$4,396	51%	\$8,673

**Source: Random sample of commercial loans*

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

The bank's distribution of loans reflects satisfactory penetration among businesses of different sizes. For this analysis, we sampled 20 business loans (from our random sample described above) that the bank originated or purchased within its assessment area during the evaluation period. We compared the bank's business lending patterns to the area demographics for small businesses (businesses with gross annual revenues of \$1 million or less). We did not analyze consumer lending because the bank is primarily a business/SBA lender.

Based on the sample, the bank granted 70 percent of the number of loans and 62 percent of the dollar volume to small businesses. This compares favorably to the 2007 Dun & Bradstreet business demographic, which reflects that small businesses comprise 70 percent of area businesses. We placed greater emphasis on the number of loans given that the bank met the credit needs of a greater number of small businesses.

The following table reflects the distribution of commercial lending by business revenue size compared to 2007 Dun & Bradstreet data.

Borrower Distribution of Loans to Businesses January 1, 2003 through December 31, 2007		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	70%	5%
% of Bank Loans in AA by #	70%	30%
% of Bank Loans in AA by \$	62%	38%

**Demographic Data Source: 2007 Dun & Bradstreet – 25% of AA businesses did not report revenue data*

Geographic Distribution of Loans

The geographic distribution of loans compares favorably with area demographics. In particular, the bank achieved excellent distribution in moderate-income census tracts.

Based on the sample of 20 business loans, the bank made 35 percent of the number of loans to small businesses in moderate-income census tracts. This compares very favorably to demographic data, which show that 22 percent of small businesses in the area are in moderate-income census tracts.

Low-income census tracts comprise 5 percent of the assessment area, but no loans in our sample were granted in these tracts. The bank does not arbitrarily avoid lending in low-income census tracts, and management has taken steps to improve loan distribution in these areas. As noted above, the bank is expanding the SBA Community Express loan program in the assessment area. This program requires these loans to be granted to businesses located in these geographies.

The following table reflects the geographic distribution of the sample of commercial loans compared to 2007 Dun & Bradstreet data.

Geographic Distribution of Loans to Businesses January 1, 2003 through December 31, 2007								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial Loan Sample	5%	0%	22%	35%	37%	50%	36%	15%

**Demographic Data Source: 2007 Dun & Bradstreet*

Responses to Complaints

Borrego Springs Bank 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.