



# SMALL BANK

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

January 28, 2013

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Neighborhood National Bank  
Charter Number 22770

3511 National Avenue  
San Diego, California 92113

Office of the Comptroller of the Currency

San Diego Field Office  
1925 Palomar Oaks Way, Suite 202  
Carlsbad, California 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 “Outstanding”.**

The major factors that support this rating for Neighborhood National Bank (Bank) include:

- The Bank’s loan-to-deposit ratio is reasonable given the Bank’s size and performance context.
- A majority of the Bank’s lending activity is within its delineated assessment area.
- The geographic distribution of business loans reflects excellent dispersion throughout the assessment area compared to area demographics.
- The Bank’s distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics.
- The Bank provided an excellent level of community development activities.

**SCOPE OF EXAMINATION**

We evaluated the Bank’s performance within its delineated assessment area (AA) using small bank Community Reinvestment Act (CRA) full-scope procedures. The procedures used to assess the Bank’s performance rating focused on its lending activities. The evaluation period for this Performance Evaluation is May 2005 through December 2012. The sampling period for the lending test was from January 1, 2010 through December 31, 2011, as this period is representative of the Bank’s lending strategy since the last CRA examination. We determined loan performance by analyzing a random sample of the Bank’s primary lending product, commercial loans that the Bank originated or purchased.

In addition to the lending test, Bank management requested a review and evaluation of its performance in community development lending, qualified investments, and community development services. The evaluation period for assessing the Bank’s community development activities covered May 2005 through December 2012.

**DESCRIPTION OF BANK**

The Bank is a full-service community bank headquartered in San Diego, California. Established in 1997, it is a designated Community Development Financial Institution (CDFI). As a CDFI, the Bank promotes community development and revitalization in low- and moderate-income areas by providing access to credit and other financial services. The Bank was the first CDFI to receive a national charter and has a goal of addressing the financial services needs of under-served communities and low- and moderate-income persons. The Bank operates three full-service branches. The main office and another branch, located in the southeast area of the city of San Diego and in the city of National City respectively, are in low-income census tracts. The

Bank’s third branch is located in an area of San Diego County known as Rancho San Diego in an upper-income census tract.

Neighborhood Bancorp owns 92.91% of the Bank and private investors own the remaining 7.09%. Neighborhood Bancorp is located in National City, California, and provides capital allocation for the Bank and its other holding company subsidiary, Neighborhood Capital Advisors (NCA). NCA was formed to provide investment capital for economic development projects and for micro-entrepreneurs, but is currently a “non-operating” subsidiary. Neighborhood Bancorp and the Bank also have a non-profit affiliate, Neighborhood Opportunities Corporation, which provides financial literacy education.

The Bank offers a range of banking products at all its branches. Loan products include commercial real estate and construction loans, Small Business Administration loans, and personal and business loans and lines of credit. Deposit products include interest bearing checking, savings, money market, and certificate of deposit accounts and personal and business checking accounts. The Bank offers “Neighborhood Advantage” checking and savings accounts that require no minimum balance and no monthly service charge, as well as interest bearing checking accounts for non-profit organizations that are free of monthly service charges. Each branch has an automated teller machine. All branches are open for business Monday through Thursday from 9:00 AM to 5:00 PM and Friday 9:00 AM to 6:00 PM. The main office is open Saturday 9:00 AM to 2:00 PM. Alternate delivery systems also include telephone banking, on-line banking, courier service, and merchant remote capture deposits.

The Bank’s Report of Condition and Income as of December 31, 2012 reported total assets of \$110 million, total loans of \$69 million, total deposits of \$102 million, and total equity capital of \$6.7 million. Total loans represented approximately 63 percent of total assets. The following chart summarizes the loan portfolio by major loan type.

<b>Neighborhood National Bank Loan Portfolio Outstanding Balances by Major Product Type As of December 31, 2012</b>		
<b>Loan Type</b>	<b>(000s)</b>	<b>Percent</b>
Commercial Real Estate	38,095	55.5
1-4 Family Residential RE	11,190	16.3
Commercial-Industrial	10,672	15.5
Multifamily Residential	7,364	10.7
Other	1,183	1.7
Consumer	107	0.2
Construction	54	0.1
<b>Total</b>	<b>68,665</b>	<b>100%</b>

During the evaluation period, the Bank operated under a Consent Order relating to safety and soundness concerns, requiring significant time, staff effort, and financial resources to correct

certain deficiencies. Nevertheless, the Bank remained focused on meeting the credit needs of its community. We took these context factors into account when reaching our conclusions concerning the Bank's CRA performance. The last CRA examination occurred on May 2, 2005, and the Bank received an "Outstanding" rating under the "Small Bank" rating criteria.

## **DESCRIPTION OF ASSESSMENT AREA**

The Bank's AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The AA consists of 225 contiguous census tracts in southern San Diego County where the Bank has established lending opportunities, and areas the Bank determined it can reasonably serve. The area comprises low-income census tracts (23%), moderate-income tracts (28%), middle-income tracts (33%), and upper-income tracts (16%). The delineated area includes the cities of El Cajon, Chula Vista, Lemon Grove, and National City; the communities of Central San Diego, San Diego Mid-City, and Southeast San Diego, which are officially designated sub-regions of the City of San Diego; and lastly the unincorporated communities of Rancho San Diego and Spring Valley.

Banking competition in the area is strong with numerous large, regional, and community banks and other financial service providers. The Bank competes with other community banks in San Diego, but its focus on community development sets it apart from its competitors. The largest banks offering commercial and consumer financial products include Union Bank, Bank of America, JPMorgan Chase Bank, and Wells Fargo Bank. These large institutions have the advantage of strong brand recognition and can more readily capture market share as a result.

San Diego County includes the entire San Diego-Carlsbad-San Marcos Metropolitan Statistical Area. It is the southern-most county in California and is bounded by Orange and Riverside Counties to the north, Imperial County to the east, the Pacific Ocean to the west, and Mexico to the south. San Diego County is the second most populous county in California with a population of 3.1 million according to the 2010 U.S. Census.

San Diego has a varied economic base. Major industries include government, professional, and business services; and trade, transportation, and utilities. Major employers include the University of California, San Diego, the County of San Diego, Naval Base San Diego, City of San Diego, San Diego Unified School District, Sharp Health Care, Scripps Health, and Qualcomm, Inc. According to the San Diego Regional Chamber of Commerce Economic Research Bureau, the median home price in January 2012 was \$349,000. Approximately 53 percent of all housing units are owner occupied. The 2000 U.S. Census reflected a median family income of \$53,544 in the Metropolitan Statistical Area (MSA). The updated MSA median family income for 2011 was \$74,900 according to the U.S. Department of Housing and Urban Development (HUD). Approximately 10 percent of the households are living below the poverty level.

The consensus amongst local economists, including Alan Gin from the University of San Diego, is that the San Diego County economy will continue to experience a slow and steady recovery over the next few years. San Diegans continue to face challenges in the variety of jobs created as well as the wages received. Middle-skilled jobs that once formed the broad-base of the middle

class are disappearing. Consequently, most of the jobs created are relatively low-skilled and low-paid, such as home nursing and landscape gardening. The San Diego Association of Governments believes the current economic conditions will continue to impact consumers by job losses, lower wages, and foreclosures. RealtyTrac reported that San Diego County had 29,786 foreclosures filed during 2011. The California Employment Development Department reported that the unemployment rate in the San Diego County was 9.5 percent in March 2012 compared to the state unemployment rate of 11.5 percent and the national unemployment rate of 8.2 percent.

Examiners contacted a local community economic development organization to determine primary credit needs in the AA. This organization supports revitalizing low- to moderate-income (LMI) areas by assisting small business development through information and training programs, including programs targeted for LMI persons. Local cities and government agencies provide most of the program funding needs. The organization relies on private parties and financial institutions to donate the remaining funds.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

Based on a random sample of 20 commercial loans, the Bank's performance in meeting the credit needs of the community is Outstanding. During the evaluation period January 1, 2010, through December 31, 2011, the Bank made a majority of its loans to borrowers inside the AA. The loan to deposit (LTD) ratio is reasonable given the Bank's size and performance context. The Bank has excellent geographic dispersion and reasonable penetration among businesses of different sizes throughout the AA. Each of the areas considered in the lending test is described below.

### **Loan-to-Deposit Ratio**

The Bank's LTD ratio is reasonable given the Bank's size, financial condition, and local economic conditions, and it exceeds the standard for satisfactory performance. We analyzed the Bank's quarterly average LTD ratio for the prior 31 quarters: from its last CRA examination through September 30, 2012. The Bank's average LTD ratio for this period is 84 percent. This ratio ranged from a quarterly low of 66% to a quarterly high of 101% during the period. There are no other CDFIs of similar size located in the assessment area for comparison purposes. However, the Bank's LTD ratio compares favorably with two other national banks of similar asset size in the AA. The average LTD ratio for these banks was 82% over the same period, and the ratio ranged from 78% to 86%. The Bank operates in a competitive environment and holds only 0.16 percent of the deposit market share in its AA, with four large institutions holding over 66 percent.

### **Lending in Assessment Area**

The Bank originated a majority of its loans within its delineated assessment area and exceeds the standard for satisfactory performance. The Bank originated 75 percent of the number of commercial loans in our random sample and approximately 85 percent of the dollar amount within the AA during our evaluation period. See Table 1 for details.

<b>Table 1 - Lending in the Defined CRA Area                      San Diego Assessment Area                      Commercial Loans                      January 2010 through December 2011</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total #	Inside		Outside		Total \$(000's)
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Commercial Loan Sample	15	75	5	25	20	5,486	85.2	957	14.8	6,443

Source: Random sample of 20 bank commercial loan originations from January 2010 through December 2011.

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

The Bank’s distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics and meets the standard for satisfactory performance. We randomly sampled 20 business loans the Bank originated or purchased within its assessment area. The Bank originated 65% of loans (by number) and 46% (by dollar volume) to small business borrowers in its assessment area. We placed greater weight on the number of loans for this analysis, and the percentage of the number of sampled loans reasonably compares to small business demographics in the San Diego AA. See Table 2A for details.

<b>Table 2A – Lending to Businesses of Different Sizes - Borrower Distribution                      Commercial Loans                      San Diego Assessment Area                      January 2010 through December 2011</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	67.65%	2.52%	29.83%	100%
% of Bank Loans in AA by #	65%	35%	00%	100%
% of Bank Loans in AA by \$	45.97%	54.03%	00%	100%

Source: Dunn and Bradstreet reported revenue data. Random sample of 20 commercial loan originations from January 2010 through December 2011.

**Geographic Distribution of Loans**

The geographic distribution of business loans overall reflects excellent dispersion throughout the assessment area compared to area demographics and exceeds the standard for satisfactory performance. We randomly sampled 20 business loans the Bank originated or purchased within its assessment area. The Bank’s lending to businesses in low- and moderate-income tracts exceeds the demographic data for the AA. See Table 3A for details.

<b>Table 3A - Geographic Distribution of Commercial Loans San Diego Assessment Area January 2010 through December 2011</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
Commercial Loan Sample	13%	30%	34%	50%	31%	15%	22%	5%

*Source: Dunn and Bradstreet business data by geographic location. Random sample of 20 loan originations from January 2010 through December 2011. (Note: 0.16 percent of census tracts in Geo-demographic data are not income-designated tracts).*

### **Community Development Loans, Investments, and Services**

The Bank has demonstrated an excellent responsiveness to the community development needs of the AA, considering its performance context and the needs and opportunities within the AA. The Bank's community development activities exceed the standard for satisfactory performance.

The Bank Enterprise Award (BEA) Program adds support for the Bank's high levels of community development lending, investments, and services. The U.S. Treasury Department funds the BEA Program and rewards participating financial institutions for increasing their activities in economically distressed communities and investing in community development financial institutions. The Bank received a total BEA award of \$2.9 million during the evaluation period based on the Bank's high level of community development activities.

### **Number and Amount of Community Development Loans**

The Bank's record of community development lending is excellent. During the evaluation period, the Bank originated eight qualified community development loans totaling \$4.1 million in its AA. These loans were made to for-profit or non-profit organizations that are dedicated to the purchase, development, or renovation of affordable housing for low- and moderate-income individuals as well as community services targeted to low- and moderate-income individuals.

### **Number and Amount of Qualified Investments**

The Bank's record of qualified investments is excellent. During the evaluation period, the Bank invested \$1.6 million in certificate of deposits at 16 community development credit unions located outside of the Bank's AA. In addition, the Bank made 30 grants and donations totaling \$19 thousand to organizations that provide economic development, affordable housing, and community services to low- and moderate-income individuals in its AA.

### **Extent to Which the Bank Provides Community Development Services**

The Bank provides an excellent level of qualified community development services within its assessment area. Two of the Bank's three branches are located in a low-income geography. During the evaluation period, Bank employees and directors provided financial and technical

expertise to ten separate and qualified community development organizations. Their community development services focused on small business and economic development, affordable housing, and community services targeted to low- and moderate-income individuals and families.

Examples of these community development services follow:

- Two Bank officers provided financial and technical expertise by serving as committee members for a local economic development council that promotes education and economic development in low- and moderate-income geographies within the AA.
- A member of the Board of Directors provided financial and technical expertise by working with a local non-profit community development agency that provides education, housing and community economic development in low- and moderate-income geographies within the AA.

### **Responses to Complaints**

The Bank has not received any complaints about its performance under the CRA during this evaluation period.

### **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 or Federal savings association's (collectively, "bank's") CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance.

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