



PUBLIC DISCLOSURE

December 05, 2016

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

California First National Bank
Charter Number 23925

28 Executive Park
Irvine, CA 92614

Office of the Comptroller of the Currency

1551 North Tustin Avenue
Suite 1050
Santa Ana, CA 92705

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.”

The conclusions for the three rating criteria are:

- The bank demonstrates an adequate level of community development activity through qualified community development lending, qualified investments, and community development services.
- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area (AA).
- The bank demonstrates no use of “innovative or complex” qualified community development loans, investments, or services.

Scope of the Examination

California First National Bank (“CFNB” or the “bank”) is designated as a “wholesale institution” for Community Reinvestment Act (CRA) compliance purposes. To evaluate the CRA performance of banks with this designation, we use the *community development test*. This test includes an assessment of the level and nature of a bank’s qualified community development lending, investments, and services.

At this examination, we reviewed community development lending, investments, and services during the evaluation period July 1, 2013, through December 5, 2016. At the bank’s request, we also considered community development activities of the bank’s holding company. Because the bank adequately addressed the needs of its AA during this period, we considered community development activities the bank participated in outside its designated AA when evaluating its performance. At the prior CRA examination, dated July 29, 2013, we rated the bank’s performance as “Satisfactory.”

Description of Institution

CFNB is an Internet-based commercial bank, headquartered in Irvine, California, which opened for business in May 2001. In its Consolidated Report of Condition and Income as of September 30, 2016, the bank reported total assets of \$840.8 million, consisting mainly of \$420.8 million in commercial loans and \$211.1 million in commercial leases. Deposits totaled \$669.4 million, and Tier 1 Capital totaled \$118.4 million. Additional financial information is provided in Table 1. The bank is a wholly-owned subsidiary of California First National Bancorp, a publicly traded company and one-bank holding company also headquartered in Irvine.

As an Internet-based bank, CFNB does not provide walk-in facilities or deposit-taking

automated teller machine (ATM) services. The bank provides deposit and/or lending services via the Internet, thereby increasing the bank's deposit/lending footprint beyond its designated AA.

The bank's business strategy and charter provide that its lending activities are restricted to the extension of credit (structured as leases or loans) to commercial customers. No home mortgage, small business, small farm, or consumer loans are extended to retail customers. As a result, the bank is designated as a "wholesale" institution for CRA purposes. Since its last CRA examination, CFNB has grown substantially and diversified its credit portfolio to include a broader range of commercial credits. The bank's customers include major corporations, middle-market companies, subsidiaries and divisions of Fortune 1000 companies, private and state regulated educational institutions, not-for-profit organizations and institutions, and municipalities and government enterprises throughout the United States.

The bank has no legal, financial, or other factors that would affect its ability to meet the credit needs in its AA.

Table 1: CFNB Financial Information (\$000s)

	Year-end 2013	Year- end 2014	Year-end 2015	Most Recent Quarter-end 09/30/2016	Average for Evaluation Period
Tier 1 Capital	100,595	106,121	111,979	118,387	109,271
Total Income	20,969	24,064	27,602	33,369*	26,501
Net Operating Income	5,618	5,526	5,858	8,544*	6,387
Total Assets	465,790	601,914	776,043	840,817	671,141

Source: Consolidated Report of Condition and Income and bank reported data.

*Annualized data reported.

Description of Assessment Area

CFNB has designated the entire Counties of Los Angeles and Orange, California as its AA. The combined AA forms the Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area (MSA). The AA meets regulatory requirements, has whole census tracts, and does not arbitrarily exclude low- or moderate-income geographies. CFNB operates in a highly competitive banking environment. Most of the competition in the MSA is from Bank of America, N.A.; Wells Fargo, N.A.; Union Bank, N.A.; J.P. Morgan Chase Bank, N.A.; City National Bank; CIT Bank, N.A., and Citibank, N.A. CFNB is an Internet-based institution and seeks deposit and credit opportunities nationwide. Therefore, the bank does not focus on any particular local community.

Los Angeles County (LAC)

LAC includes all political subdivisions, cities, towns, and tracts which form the Los Angeles-Long Beach-Glendale Metropolitan Division. LAC is a highly diverse urban area with 88 cities, although most of the county is unincorporated. The county is one of

the largest in the nation, with 4,084 square miles, and includes San Clemente and Santa Catalina Islands. The estimated population is 9.8 million based on the 2010 U.S. Census, making it the largest population of any county in the nation. LAC has an extensive transportation network, including seaports and airports, freeway systems, mass transit systems, rail systems, and cross-country railroads. LAC covers 70 miles of coastline along the Pacific Ocean. The neighboring counties include Orange to the southeast, Kern to the north, San Bernardino and Riverside to the east, and Ventura to the northwest. The county holds most of the state’s principal cities encompassing the Greater Los Angeles Area.

Table 2a: LAC Demographic Description

	Number	Low	Moderate	Middle	Upper	N/A
Tracts	2,346	9%	29%	27%	34%	1%
Families	2,170,227	24%*	16%*	18%*	42%*	0%*
Businesses	734,030	7%**	18%**	25%**	49%**	1%**
Farms	7,024	3%**	16%**	27%**	53%**	1%**

Source: Demographic data – 2010 U.S. Census, 2015 Dun & Bradstreet data.

[“N/A” tracts are geographies not designated by the U.S. Census according to a specific income level.]

* Represents families by income level.

** Represents businesses or farms by income level of census tract.

LAC consists of 2,346 census tracts; nine percent are low-income, 29 percent are moderate-income, 27 percent are middle-income, and 34 percent are upper-income tracts. Approximately one percent of the geographies are not designated to a specific income level. Most of the low- and moderate-income tracts are located in the southern and central regions of the County with a few larger individual moderate-income tracts located in the northern section. The 2010 U.S. Census median housing value was \$526,439. According to CoreLogic, the median home price in October 2016 was \$525,000. The 2010 weighted average of the median family income was \$61,622. The Federal Financial Institutions Examination Council (FFIEC) updated the median family income to \$63,000 for 2015. Approximately 14 percent of the households are living below the poverty level.

LAC has a diverse economic base. Historically, the leading industry clusters were tourism and hospitality, professional and business services, entertainment (motion picture and television production), wholesale distribution, and health services and biomedical. LAC is now largely technology driven. The technology sector includes bio-medical, digital information, and environmental technology, all of which build on the vibrant technical research capabilities in the county. The county also is the largest manufacturing center in the United States, and the seaports and airports support international trade. The Port of Los Angeles/Long Beach and the Los Angeles International Airport are two of the busiest transportation networks in the nation. The top employers are the County and City of Los Angeles, the Los Angeles Unified School District, Kaiser Permanente, University of California Los Angeles, Northrop Grumman

Corporation, Target Corporation, Kroger Corporation, Cedars Sinai Medical Center, Bank of America Corporation, and The Boeing Company.

The LAC economy has shown signs of improvement. Construction and technology have been at the center of the recovery the last few years. Payrolls also increased because of a surge in hiring among the motion picture and sound recording firms. Apparel makers also posted modest gains. According to the California Employment Development Department, the unemployment rate for LAC was 5.1 percent for October 2016. This is below the unemployment rate of 5.3 percent for California.

An examiner reviewed a recent contact of a community organization that helps individuals and businesses connect with finances in an effort to revitalize communities in LAC. The contact stated that there are numerous opportunities for bank involvement, including housing development, contributing to small business lending funds, flexible products for lending and investments, and providing technical assistance to small businesses.

Orange County (OC)

OC is primarily an urban area, with 34 incorporated cities and several unincorporated areas, which forms the Anaheim-Santa Ana-Irvine Metropolitan Division. OC is the third largest county in California by population and covers 791 square miles of land. The estimated population is 3 million based on the 2010 U.S. Census. OC has extensive transportation facilities including airports, railroads, and freeways. The freeway system connects the county’s labor force to employment centers in Los Angeles as well as providing extensive access within county borders. The county has 42 miles of southern California coastline with nine public beaches. The neighboring counties include Los Angeles County to the north, San Diego County to the south, and Riverside and San Bernardino Counties to the east.

Table 2b: Orange County Demographic Description

	Number	Low	Moderate	Middle	Upper	N/A
Tracts	583	6%	26%	33%	34%	1%
Families	699,333	22%*	17%*	20%*	41%*	0%*
Businesses	270,552	5%**	25%**	33%**	36%**	1%**
Farms	3,355	5%**	26%**	33%**	35%**	1%**

Source: Demographic data – 2010 U.S. Census and 2015 Dun & Bradstreet data.

[“N/A” tracts are geographies not designated by the U.S. Census according to a specific income level.]

* Represents families by income level.

** Represents businesses or farms by income level of census tract.

OC consists of 583 census tracts; six percent are low-income, 26 percent are moderate-income, 33 percent are middle-income, and 34 percent are upper-income tracts. Approximately one percent of the geographies are not designated to a specific income level. The low- and moderate-income tracts are located mainly in the central and northwestern parts of the county. The 2010 U.S. Census median housing value was

\$598,487. According to CoreLogic, the median home price in October 2016 was \$655,000. The 2010 weighted average of the median family income was \$83,735. FFIEC updated the median family income to \$85,900 for 2015. Approximately nine percent of the households are living below the poverty level.

The county's economic output and employment is well distributed among the various sectors. OC is known for tourism, with attractions such as Disneyland, Knott's Berry Farm, and several beaches. OC also is the headquarters for several Fortune 500 companies, including Ingram Micro, Inc.; Broadcom Corporation; Western Digital Corporation; and Pacific Life Insurance Company. The major employers include the Walt Disney Company, University of California – Irvine, Raytheon Company, St. Joseph Health System, Kaiser Permanente, and The Boeing Company.

Technology, tourism, and the renewed housing-related industries are the primary drivers of an improving county economy. Private job gains are broadening across industries, and local and state government payrolls are stabilizing. OC's labor force continues to expand. The California Employment Development Department reported that the OC unemployment rate fell to 4.1 percent for October 2016. OC's unemployment rate is one of the lowest among California regional economies and well below the state unemployment rate of 5.3 percent.

An examiner contacted one community development organization that provides food, clothing, shelter, household items, referral services, and other support services to the homeless, low-income, and economically disadvantaged in OC. The contact stated that the organization needs more investments from financial institutions along with financial literacy education and support.

Conclusions About Performance

Summary

As noted earlier in this evaluation, the bank's overall CRA performance as a wholesale-designated bank is "Satisfactory." The overall level of CFNB's community development activities is adequate. We took into consideration the bank's capacity, its narrow business strategy and related restrictions under its regulatory charter, the number and location of staff, and the available opportunities given those factors.

During this evaluation period, CFNB originated over \$15.2 million in qualified community development loans. The bank also maintains a \$116 thousand mortgage-backed security outstanding from the previous evaluation period that funded mortgages to moderate-income families within the AA. In addition, CFNB also made qualifying donations totaling \$238.3 thousand during the evaluation period. The bank has limited customer activity, and its employees specialize in banking operations that meet the needs of its business strategy. Therefore, service activities remain limited.

The bank demonstrates no use of innovative or complex community development activities. The bank did not originate any highly “innovative” or “complex” community development loans, investments, or services during the evaluation period.

The bank’s responsiveness to the credit and community development needs in its AA is adequate. The majority of community development activities were through community development lending that supported qualified community services. Investment activities support affordable housing and qualified community services. The community development service activity provided technical activity to non-profit groups serving low- and moderate-income veterans and at-risk youth.

Qualified Investments

CFNB’s level of community development investments is adequate. The bank has a \$116 thousand mortgage-backed security outstanding from the previous evaluation period that funded mortgages to moderate-income families within the AA. CFNB also made donations totaling \$238.3 thousand during the evaluation period. The donations were primarily to organizations that support low- and moderate-income youth both inside and outside the AA.

Table 3 provides an overview of the bank’s community development investments and grants. Table 4 shows the investment activity in relation to the bank’s financial capacity.

Table 3: Qualified Investment Activity (000s)

	Benefits AA	Outside AA	Totals
Originated Investments	\$ 0	\$0	\$ 0
Originated Grants	231.3	7	238.3
Prior-Period Investments that Remain Outstanding	116	0	116
Total Qualified Investments	\$347.3	\$7	\$354.3

Table 4: Qualified Investment Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total Investments/Average Tier 1 Capital	0.32	0.01	0.33
Total Investments/Average Total Income	1.31	0.03	1.34

Community Development Lending

During the evaluation period, the bank originated an adequate level of community development leases within the AA. CFNB originated five community development leases totaling over \$7.9 million. The bank adequately addressed the needs of the AA; therefore, consideration was given to activities outside the AA. The bank originated 17 leases totaling over \$7.3 million outside the State of California. Examples of CFNB’s community development leases include:

- CFNB made leases to several community medical centers and hospitals that provide healthcare to low- and moderate-income residents in its AA and in other areas of the country.
- The bank made leases to numerous non-profit organizations that focus on youth development, including leadership and teen activities, youth shelter, alternative school programs, and health enhancement programs.
- The bank made a lease to a local government to provide community services to low- and moderate-income residents.

Table 5 shows the bank’s community development lending as a percentage of its average Tier 1 Capital and average total income.

Table 5: Community Development Lending Percentages

	Benefits AA (%)	Outside AA (%)	Total (%)
Total CD Lending/Average Tier 1 Capital	7.24	6.70	13.94
Total CD Lending/Average Total Income	29.87	27.62	57.49

Community Development Services

The bank has demonstrated adequate responsiveness to community development needs within the AA through community development services. Given its charter restrictions and limited operating location and staff, participation in service activities is more difficult for this bank than for a more traditional community bank. However, management is making reasonable efforts to provide services that contribute to community development within the bank’s AA.

- During the evaluation period, the bank’s Management Information Systems group employees provided 73 hours of service to prepare computers for use by non-profit groups that provide programs targeted to low- and moderate-income persons, including low-income veterans and at-risk youth.

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

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

Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

Affiliate: Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

Assessment Area (AA): A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

Benefit to Assessment Area: A qualified Community Development activity benefits the assessment area if (i) the activity benefits areas within the assessment area, or (ii) the activity has the potential to benefit the assessment area and is located in the broader statewide or regional area that includes the bank's assessment area. If a bank has adequately addressed the needs of its assessment area, then the OCC also considers activities submitted by the bank that benefit areas outside of its assessment area.

CEBA: Competitive Equality Banking Act of 1987, which permitted corporations to form limited-purpose credit card banks, whose operations are restricted to credit card activities, without the corporation becoming subject to the limitations of a "bank holding company" under the Bank Holding Company Act. A CEBA credit card bank engages only in credit card operations, does not accept demand deposits or savings or time deposits of less than \$100,000 (other than to secure extensions of credit), maintains only one office and does not engage in the business of making commercial loans. [*This definition is not needed for non-CEBA Limited Purchase or Wholesale Institutions.*]

Census Tract (CT): Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

Community Development (CD): Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan

middle-income geographies, or designated disaster areas; or loans, investments, and services that support, enable or facilitate projects or activities under HUD Neighborhood Stabilization Program criteria that benefit low-, moderate-, and middle-income individuals and geographies in the bank's assessment area(s) or outside the assessment area(s) provided the bank has adequately addressed the community development needs of its assessment area(s).

Community Reinvestment Act (CRA): The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Limited Purpose Institution: An institution that offers only a narrow product line (such as credit cards or automobile loans) to a regional or broader market and for which a designation as limited purpose bank is in effect. [*This definition is not needed if bank is designated a wholesale institution.*]

Median Family Income (MFI): The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

Metropolitan Division: As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

Metropolitan Statistical Area: An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Net Operating Income: As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, line 8 or UBPR, page 2, "PreTax Operating Income (TE)"*]

Pass-Through Receivables: Outstanding receivables tied to all accounts issued or owned by the bank. Pass-through receivables include receivables attributable and receivables retained on balance sheet as those terms are used in 12 CFR 8. [*If not already reported to the OCC, the bank provides this information. If not applicable to institution being examined, definition is not required.*]

Tier 1 Capital: The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, page 11A, "Net Tier One"*]

Total Assets: Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, page 4, "Total Assets"*]

Total Income: From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, page 2, "Total Interest Income" and "Noninterest Income"*]

Wholesale Institution: An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.