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**Comptroller of the Currency  
Administrator of National Banks**

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Western District Office  
(415) 545-5900

SMALL INSTITUTION EVALUATION

**PUBLIC DISCLOSURE**

**September 13, 1999**

**COMMUNITY REINVESTMENT ACT  
PERFORMANCE EVALUATION**

**COAST NATIONAL BANK  
Charter Number 23222**

**486 Marsh Street  
San Luis Obispo, California 93401**

**Comptroller of the Currency  
Western District Office  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

**: 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.

## Table of Contents

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<b>GENERAL INFORMATION</b> .....	1
<b>DEFINITIONS</b> .....	2
<b>DESCRIPTION OF INSTITUTION</b> .....	3
<b>DESCRIPTION OF ASSESSMENT AREA</b> .....	3
Geographic Description.....	3
Demographics and Credit Needs.....	4
<b>CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA</b> .....	6
Scope of Review.....	6
Lending within the Assessment Area .....	6
Loan-to-Deposit Ratio .....	6
Lending to Businesses of Different Sizes and Individuals of Different Incomes .....	7
Geographic Distribution of Loans.....	9
<b>OTHER ITEMS</b> .....	10
Response to Complaints.....	10
Fair Lending Examination .....	11

## GENERAL INFORMATION

*The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the 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. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.*

*This document is an evaluation of the CRA performance of **Coast National Bank**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, **as of September 13, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

**INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory**.<sup>6</sup> The factors supporting the bank's overall rating include the following:

- C A large majority of loans are within the assessment area;
- C A reasonable loan-to-deposit ratio; and,
- C A reasonable distribution of loans to businesses with different revenues and consumers with different incomes.

## DEFINITIONS OF TERMS APPLIED IN THIS PUBLIC DISCLOSURE

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

**Low - Income Geography:** For a census tract: The median *family* income is less than 50% of the median *family* income for the MSA in which it is located.

**Moderate - Income Geography:** For a census tract: The median *family* income is equal to or greater than 50% and less than 80% of the median *family* income for the MSA in which it is located.

**Middle - Income Geography:** For a census tract: The median *family* income is equal to or greater than 80% and less than 120% of the median *family* income for the MSA in which it is located.

**Upper - Income Geography:** For a census tract: The median *family* income is equal to or greater than 120% of the median *family* income for the MSA in which it is located.

**LMI:** Abbreviation for **Low- and moderate-income**. Characterizes geographies and families.

**Median Family Income:** As determined by U.S. Census Bureau data in 1990.

**1999 HUD Median Family Income:** Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1999.

**Loan Originations:** The number and full credit amount of loans and lines of credit at the time they were originated during the review period, even if they subsequently have been paid or matured. Includes loan participations by the bank. Renewals are excluded, except for increased availability.

**MSA:** Metropolitan Statistical Area.

## DESCRIPTION OF INSTITUTION

**Coast National Bank (CNB)** is a community bank established in June 1997. The bank is located in the city of San Luis Obispo, California. Based on June 30, 1999 Call Report information, the bank had total assets of \$74 million, loans of \$39 million, and deposits of \$69 million.

The main office is located in the City of San Luis Obispo, in a middle-income census tract, and surrounded by middle and upper-income tracts. There are three branches which are located within the county of San Luis Obispo. The Arroyo Grande branch opened in June 1997; the Morro Bay branch opened in June 1998; and, the Los Osos branch opened in July 1999. The bank has ATMs in each office.

The bank is not a subsidiary of a holding company. There are no legal or financial circumstances that impede the bank's ability to help meet the credit needs in its assessment area. Banking competition in the area is strong, with a number of banks and other financial institutions throughout the assessment area.

The following table shows loans outstanding as of August 31, 1999:

<b>Loan Type as of 8/31/99</b>	<b>\$ Million</b>	<b>Percent</b>
Commercial Real Estate	\$27.0	63%
Commercial Business	\$8.6	20%
Construction & Development	\$4.0	10%
Consumer (Vehicle & unsecured)	\$2.7	6%
Other	\$0.4	1%
<b>Total Loans Outstanding</b>	<b>\$42.7</b>	<b>100%</b>

Source: Bank generated reports

This is the bank's first CRA evaluation.

## DESCRIPTION OF ASSESSMENT AREA

### *Geographic Description*

CNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. The assessment area consists of the entire county of San Luis Obispo, which is also the MSA. The total population of the assessment area was 217,162 in the 1990 census, and estimated by the U.S. Census Bureau to be 234,366 as of June 30, 1998.

The City of San Luis Obispo is the largest city in San Luis Obispo County. The county is the fifteenth largest in California, encompassing 3,300 square miles. It is located along the Pacific coast, 240 miles south of San Francisco and 200 miles north of Los Angeles. The larger cities of the county are located along US-Hwy 101, and are physically separated into north county and south county by the Cuesta Grade.

The county's principal employers are the city, state, and federal governments with several educational facilities and penal/mental institutions. The south county includes San Luis Obispo and the "Five-Cities Area" of Arroyo Grande, Grover Beach, Pismo Beach and the unincorporated areas of Nipomo and Oceano. Tourism and recreation are the single largest income producers for these cities. The north county includes Atascadero and Paso Robles. Tourism and agriculture are the largest income producers in this area.

North county contains a mountain range, the Hearst San Simeon State Historic Monument, national forests, and state parks. Another section of the north county consists of a large mental health facility, a water treatment plant, and land for cattle grazing.

Population growth averaged 1% per year between 1990 and 1996 according to the University of California, Santa Barbara Economic Forecast Project, dated November 1998. The growth of total population in the county accelerated in 1998 to 2%. This is the fastest rate since 1990. Overall, the population of San Luis Obispo County has grown 10% in the unincorporated areas, and 5% in the collective incorporated cities, over the last five years.

### *Demographics and Credit Needs*

<b>Census Tracts &amp; Population within Assessment Area</b>				
<b>Income Category of Census Tract</b>	<b># of Census Tracts</b>	<b>% of all Census Tracts</b>	<b>1990 Population</b>	<b>% of Population within Tract Income Category</b>
Low	0	0%	0	0%
Moderate	4	12%	20,689	10%
Middle	23	67%	175,860	81%
Upper	4	12%	20,536	9%
NA	3	9%	77	0%*
<b>Total</b>	<b>34</b>	<b>100%</b>	<b>217,162</b>	<b>100%</b>

Source: 1990 Census Bureau data

\* Less than 0.5%

According to 1990 Census data, the median family income was \$37,087. This is slightly lower than the \$41,848 for all MSAs in California. HUD median family income was updated in 1999 to \$48,000. The Census median housing value for the assessment area was \$219,601.

A community contact verified that certain segments of the population living in the southern portion of the County do not bank with any depository institutions. Thus, lending opportunities are limited in the two moderate-income census tracts near the Arroyo Grande branch.

The following table illustrates the distribution of families by family income, based on 1990 Census Bureau data:

<b>Families within Current Assessment Area (Distributed by Family Income)</b>		
<b>Family Income Category *</b>	<b>Assessment Area</b>	
	<b># of Families</b>	<b>% of Families</b>
Low	9,304	18%
Moderate	9,965	19%
Middle	13,007	24%
Upper	20,427	39%
<b>Total Families</b>	<b>52,703</b>	<b>100%</b>
<b>Total Population</b>	<b>217,162</b>	

Source: 1990 Census Bureau data

\* Income category is for the families, regardless of the income category of the census tract in which they reside.

LMI families live throughout the assessment area. Despite the fact that there are only four census tracts designated as LMI, families designated LMI represent 37% of all families in the assessment area. This proportion is slightly below the 39% share of families in all MSAs in California.

Employment data is available at the county/MSA level from the State of California Employment Development Department (EDD) dated June 1999. The largest civilian employment sectors in the San Luis Obispo MSA are services, retail trade, tourism, manufacturing, construction and agriculture. Also according to EDD data, the average unemployment rate for the San Luis Obispo MSA was 3.5%, which is less than the state rate of 5.3% and the national rate of 4.5%.

Dun & Bradstreet 1999 economic reports show that 11,964 businesses (607 farms and 11,357 non-farm businesses) operate within the bank's assessment area. Of those farms and businesses with reported revenues, 92% have reported annual revenues of \$1 million or less, including 84% with revenues of less than \$500 thousand. Approximately 83% employ fewer than ten employees.

Meetings between federal regulatory agencies and community groups within the San Luis Obispo MSA have determined the primary credit needs to be affordable housing, purchase financing, capital for start-up ventures,

and programs to assist small businesses.

We conducted one community contact for this examination. The non-profit organization serves the County of San Luis Obispo. It provides loan guarantees to assist businesses in obtaining credit from financial institutions. These businesses must create or retain jobs for individuals who live on low or moderate family income. This contact identified small business financing as the primary credit need in the county.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

**Scope of Review**

The review period for this evaluation is the period of June 16, 1997 to September 13, 1999. We used bank generated information which we tested for accuracy. The bank's primary lending focus is on commercial business, commercial real estate, construction, and consumer lending.

*Lending within the Assessment Area*

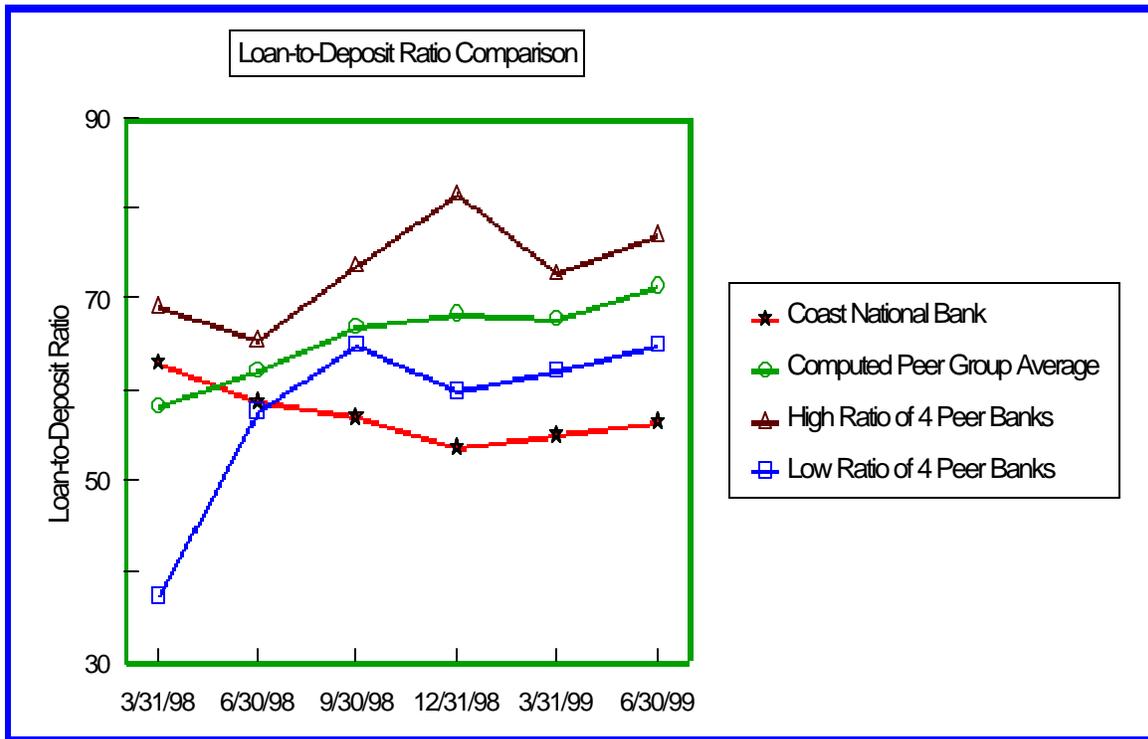
**C The proportion of CNB's lending within its assessment area exceeds the standards for Satisfactory Performance.**

We reviewed and validated a sample (12%) of the bank's census tract reporting data on loan originations for the review period. Of all loans made during the review period, 93% of the number and 92% of the dollar volume were within the assessment area. This is demonstrated in the following table:

<b>Lending Inside and Outside the Assessment Area Commercial, Real Estate, and Consumer Loans &amp; Commitments</b>				
	<b># of Loans in Assess Area</b>	<b>% of # of Loans in Assess Area</b>	<b>\$ of Loans (000) in Assess Area</b>	<b>% of \$ of Loans in Assess Area</b>
Inside Assessment Area	525	93%	\$69,442	92%
Outside Assessment Area	41	7%	\$6,238	8%
<b>Total</b>	<b>566</b>	<b>100%</b>	<b>\$75,680</b>	<b>100%</b>

**Loan-to-Deposit Ratio**

C **CNB=s Loan-to-Deposit Ratio meets the standards for Satisfactory Performance, given the bank=s size, age, and assessment area credit needs.**



We evaluated the bank=s loan-to-deposit ratio for six quarters ending June 30, 1999. During this period, the bank=s average loan to-deposit ratio was 57%. We analyzed only six quarters because the bank was in the initial stages of obtaining deposits and loans between June 1997 and December 1997.

The following chart compares CNB=s quarterly loan-to-deposit ratio to the computed peer group average and to the high and low ratios of the four peer institutions:

Source: Call Report data

The loan-to-deposit ratio is slightly below peer banks. Peer banks include all community banks headquartered in San Luis Obispo County with assets of less than \$205 million. From June 1997 to March 1998, CNB increased its ratio from 2% to 63%, which was slightly above the peer group average of 58% for March 1998. A new peer bank opened in December 1997, and its low loan-to-deposit ratio is the reason for the lower than normal **ALow Ratio of 4 Peer Banks** shown in the graph.

CNB's ratio declined from April 1998 through December 1998, because deposit growth exceeded loan growth. The trend has been increasing gradually since December 1998 when the ratio was 54%, reaching 59% at August 31, 1999. The dollar volume of loans increased with improved market awareness of this new bank. From December 1998 to August 1999, net loans increased from \$34 million to \$43 million.

#### ***Lending to Businesses of Different Sizes and Individuals of Different Incomes***

**C CNB's lending to businesses of different sizes and individuals of different incomes meets the standards for Satisfactory Performance. This conclusion is based on the context of the bank's size, resources, age, and competition.**

**Businesses:** Lending opportunities are strong, based on Dun & Bradstreet data for the assessment area. There are 11,964 businesses within the area, including 607 farms and 11,357 non-farm businesses. Of those farms and businesses with reported revenues, 92% have annual revenues of \$1 million or less, and 84% have revenues of less than \$500 thousand.

We verified data on the revenue of the bank's business borrowers by sampling 25 (6%) of the originations of commercial loans in the assessment area. We then analyzed all of the business loans that provided revenue information. The following table shows the distribution of business lending opportunities and the bank's lending performance in these sectors:

**Businesses & Farms of Different Sizes:  
Lending Opportunities and the Bank's Lending Performance within Assessment Area  
Commercial Loans**

Businesses & Farms with Reported Income:	Opportunities Per Dun & Bradstreet		Loans Originated (By Revenue of Borrower)			
	#	%	# of Loans	% of Total #	\$ of Loans (000)	% of Total \$
<= \$250,000	NA	NA	246	67%	\$37,101	59%
> \$250,000 to < \$500,000	NA	NA	26	7%	\$8,460	13%
Subtotal < \$500,000	8,746	84%	272	74%	\$45,561	72%
>= \$500,000 to < \$1,000,000	849	8%	23	6%	\$4,764	8%
<b>Subtotal &lt; \$1,000,000</b>	<b>9,595</b>	<b>92%</b>	<b>295</b>	<b>80%</b>	<b>\$50,325</b>	<b>80%</b>
>= \$1,000,000	819	8%	71	20%	\$12,976	20%
<b>Total with Reported Income</b>	<b>10,414</b>	<b>100%</b>	<b>99%*</b>	<b>100%</b>	<b>\$63,301</b>	<b>100%</b>

Source: 1999 Dun & Bradstreet Business Demographic data and bank generated reports

\* Three start up businesses (1%) did not have income information available

Of the business loans originated within the bank's assessment area, we found that 80% by number and 80% by dollar volume were to small businesses (with revenues of \$1 million or less). Although this level is below the reported level of opportunities, the penetration is reasonable in the context of the bank's size, age, and competition.

**Individuals:** During the review period, the bank generated 84 consumer auto loans, representing 61% by number and 30% by dollar volume of total consumer loans originated. To analyze data on the revenues of the bank's individual borrowers, we verified the income from a sample of 30 (35%) auto loan applications, and then reported all auto loan originations in the table.

The following table shows the distribution of auto loans, based on family incomes. The income categories are based on the updated 1999 HUD median family income. The updated family income thresholds are listed in the table below:

Auto Loans to Individuals of Different Income			
Family Income	% of Families within Income Category	# of Loans Originated by Income	% of Loans Originated by Income

<b>Family Income</b>	<b>% of Families within Income Category</b>	<b># of Loans Originated by Income</b>	<b>% of Loans Originated by Income</b>
Low (<=\$24,000)	18%	27	32%
Moderate (24,001 to \$38,400)	19%	17	20%
Middle (\$38,401 to \$57,600)	24%	8	10%
Upper (>=\$57,600)	39%	32	38%
<b>Total</b>	<b>100%</b>	<b>84</b>	<b>100%</b>

Source: 1990 Census Bureau data, 1999 HUD Median Family Income data, and bank generated reports

The bank lends to individuals of all income levels within its assessment area. Of total auto loans originated within the bank's assessment area, 52% were made to LMI individuals. This compares favorably to the 37% proportion of LMI families to all families.

### *Geographic Distribution of Loans*

**C The geographic distribution of loans originated during the evaluation period meets the standards for Satisfactory Performance.**

**Businesses:** The following table shows the distribution of census tracts within the assessment area by income category; the distribution of businesses within the assessment area by census tract income; and the distribution of all originated business loans by census tract income:

Demographics			Business Loan Originations 6/16/97 - 8/31/99			
Census Tracts		% of Total Businesses in Tract	# of Loans	% of Total	\$ of Loans (000's)	% of Total
Low Income	0%	0%	0	0%	0	0%
Moderate Income	12%	11%	14	4%	\$1,590	2%
Middle Income	67%	79%	246	67%	\$43,706	69%
Upper Income	12%	10%	109	29%	\$18,349	29%
N/A	9%	0%	0	0%	\$0	0%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>369</b>	<b>100%</b>	<b>\$63,645</b>	<b>100%</b>

Source: 1990 Census Bureau data, 1999 Dun & Bradstreet Business Demographic data, and bank generated reports

The bank's business loans are reasonably distributed compared to the demographic information and based on the context of the bank's size, resources, age, and competition. The majority of loans are made in close proximity to the bank's main office, which consists of only upper and middle-income census tracts. In north county, one moderate-income census tract consists of mountain ranges (75%), and the business district of old town Paso Robles (25%). A second moderate-income census tract in north county, adjacent to Atascadero, houses a large mental hospital, a water treatment plant, and land for cattle grazing.

Demographic data shows that 60% of the businesses in the four moderate-income census tracts within the county are located in the north county census tract that includes downtown Paso Robles. This area is outside the bank's current primary servicing area. The bank originated one loan in this area.

The bank originated 13 business loans in the two moderate-income census tracts in south county. The bank's lending in these tracts is similar to the demographic data which shows that approximately 5% of total businesses are situated in the moderate-income census tracts near the Arroyo Grande branch in south county.

**Individuals:** The bank originated one auto and two mobile home loans to borrowers located in the two moderate-income census tracts near the Arroyo Grande branch in south county. As stated previously under **ADemographics and Credit Needs,** lending opportunities are limited within these census tracts, based on the non-borrowing habits of the residents.

## **OTHER ITEMS**

### ***Response to Complaints***

Neither the bank's management nor the Office of the Comptroller of the Currency have received any complaints about the bank's CRA performance.

### ***Fair Lending Examination***

We identified no violations of the substantive provisions of the anti-discrimination laws and regulations. We reviewed the bank's compliance with fair lending laws and regulations during our August 31, 1999 examination. Of the 84 consumer auto loan originations in the 12-month period of September 1998 through August 1999, 22 were made to individuals. We compared the rates and terms of loans made to females and males.