



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 5, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Pacific Coast National Bank
Charter Number 24535

905 Calle Amanecer, Suite 100
San Clemente, California 92673

Office of the Comptroller of the Currency

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

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.

- Pacific Coast National Bank originated a majority of the number and dollar volume of its loans within its defined assessment areas.
- The loan-to-deposit ratio is satisfactory given the bank's size, financial condition, and area credit needs.
- The geographic distribution of loans reasonably compares with assessment area demographics, especially given that this is a newly formed bank. In particular, the bank achieved excellent distribution in moderate-income census tracts in its San Diego assessment area.
- Lending patterns reflect adequate penetration among businesses of different sizes for a new bank.

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 since opening in May 2005 through December 2007. We focused our review on commercial loans because they represent the bank's primary lending activity.

DESCRIPTION OF INSTITUTION

Pacific Coast National Bank is a full-service commercial bank headquartered in San Clemente, California. The bank is wholly owned by Pacific Coast National Bancorp, a one-bank holding company. The bank provides community access to credit at its two offices: the San Clemente main office in Orange County and the Encinitas branch in San Diego County. Both offices are located in upper-income census tracts. There is an automatic teller machine (ATM) at each office. The bank also offers online banking services at its Internet website.

California wildfires devastated areas of North San Diego County in Fall 2007, which became a federally designated disaster area as a result. In response, the bank provided assistance to area residents and businesses by opening a temporary branch office in November 2007 in the nearby City of Fallbrook. This enabled affected residents and businesses to obtain banking services during the emergency phase of disaster recovery. The bank closed this branch in December 2007 when this valuable community service was no longer needed.

The bank's main business strategy is commercial lending. Consumer lending is not a

significant activity. Commercial loans, commercial real estate, and construction loans comprise 97 percent of the loan portfolio.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of the communities it serves. As of December 31, 2007, the bank reported total assets of \$112 million, net loans of \$96 million (86 percent of total assets), and total deposits of \$99 million.

Loan Portfolio Composition December 31, 2007		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial Real Estate and Construction	\$72,834	74%
Commercial Business	\$22,057	23%
Residential Real Estate Secured	\$2,914	3%
Consumer	\$68	<1%
Total:	\$97,873	100%

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

This is the bank's first CRA examination since opening in May 2005.

DESCRIPTION OF ASSESSMENT AREA(S)

Pacific Coast National Bank has two assessment areas, which meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies. The two assessment areas are Orange County and a portion of San Diego County.

Orange County Assessment Area

The area consists of the 577 census tracts that comprise Orange County, Metropolitan Statistical Area (MSA) 5945. Orange County is situated in Southern California and is bounded by the counties of Los Angeles to the north, San Diego to the south, Riverside to the east, and by the Pacific Ocean to the west. Population was 2,846,289 according to the 2000 U.S. Census Bureau. Per the California Employment Development Department (CEDD), the 2007 population was 3,098,121. The median housing value in the area according to the Census was \$275,476. The CEDD reports a more recent figure of \$510,000 as of March 2008. Approximately 59 percent of all housing units are owner-occupied. The Housing and Urban Development (HUD) updated median household income is \$78,300. Of the 577 census tracts, 4 percent are low-income, 27 percent are moderate-income, 33 percent are middle-income and 36 percent are upper-income.

Orange County has a diverse economy, with slowing growth expected in 2008. The unemployment rate as of March 2008 was 4.6 percent, below both the state unemployment rate of 6.4 percent and national unemployment rate of 5.2 percent. The

employed labor force in March 2008 was approximately 1.6 million. Major employers in the area include Boeing, the University of California, Irvine, and California State University, Fullerton. Economists project job growth of 1.9 percent in Orange County during 2008, centered in professional and business services, leisure and hospitality, local education, and retail trade. [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. Primary competition in the Orange County assessment area includes Wells Fargo Bank, Union Bank of California, California Bank and Trust, and Farmers and Merchants Bank.

Examiners contacted community organizations in the Orange County MSA. They identified main credit needs to include affordable housing and small loans to small businesses. One organization cited the current need for financial counseling and support for homeowners whose homes are going into foreclosure.

San Diego Assessment Area

The delineated area consists of 597 census tracts that comprise a portion of San Diego County, MSA 7320. The area is bounded by Orange County to the north, the Cleveland National Forest and sparsely populated higher elevations to the northeast and east, and then follows an easterly border along city boundaries down to Mexico. The assessment area delineation continues south and west along the international border with Mexico to the Pacific Ocean on the west. No low- or moderate-income census tracts were arbitrarily excluded in the assessment area delineation.

Population in the San Diego assessment area was approximately 2,778,542 according to the 2000 U.S. Census. Median housing value in the area was \$230,226. The CEDD provided a more recent estimate of \$394,000 as of March 2008. Approximately 53 percent of all housing units are owner-occupied. The HUD updated median household income is \$64,900. Of the 597 census tracts in the San Diego assessment area, 8 percent are low-income, 22 percent are moderate-income, 38 percent are middle-income, and 32 percent are upper-income tracts. The low- and moderate-income tracts are located primarily in the central part of the county, with a small portion in the north and by the international border in the south.

The San Diego economy has slowed, reflective of the nation's slowing economy. In particular, there has been a decrease in middle-class jobs as San Diego has evolved from an aerospace hub into a 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, account 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 as well as independent community banks. In the San Diego assessment area, the bank’s primary competitors are Wells Fargo Bank, Union Bank of California, California Bank and Trust, San Diego National Bank, and Farmers and Merchants 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

The loan-to-deposit (LTD) ratio is reasonable given the bank’s size, financial condition, and credit needs of the assessment areas. We evaluated the bank’s quarterly average LTD ratio over the last 11 quarters since the bank opened. During this period, the quarterly LTD ratio averaged 80 percent. We compared the LTD to that of peer banks (similar asset size and headquartered in similar areas). Over the same period, the quarterly LTD ratio of peer banks averaged 79 percent.

Lending in Assessment Areas

Pacific Coast National Bank originated a majority of the number and dollar volume of its loans within its defined assessment areas. For this analysis, we randomly sampled 20 commercial loans the bank originated or purchased during the evaluation period. Based on the sample, the bank originated 85 percent of the number and 84 percent of the dollar volume of loans within its defined assessment areas.

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

Lending within the Assessment Area June 2005 through December 2007										
	Number of Loans				Total	Dollar of Loans				Total (000's)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Commercial Loan Sample	17	85%	3	15%	20	\$8,630	84%	\$1,636	16%	\$10,266

**Source: Random sample of commercial loans*

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

While lending patterns in each assessment area do not compare closely to Dun & Bradstreet demographics, performance is adequate for a new bank. Management plans to strengthen performance as the bank grows over time.

An analysis of performance in each assessment area follows.

Orange County Assessment Area

Lending patterns in this assessment area do not compare closely with 2007 Dun & Bradstreet area demographics. For this analysis, we sampled 20 business loans the bank originated or purchased in this assessment area during the evaluation period and compared lending patterns to area demographics. Based on our sample, the bank granted 35 percent of the number of loans and 38 percent of the dollar volume to small businesses (having gross annual revenues of \$1 million or less). However, area demographics reflect that 69 percent of area businesses are small businesses.

As a newly-formed financial institution, the bank originated or purchased loans to grow its loan portfolio and increase earnings. Given very strong competition in the area and the need to grow loans during the early years of operation, management granted loans in larger dollar volumes to larger-sized businesses.

To improve performance, management is committed to expanding lending to small businesses as the bank establishes presence in each assessment area over time. Management also plans to see positive results in this area as the bank grants more loans under the Small Business Administration loan programs.

The following table reflects the bank’s distribution in Orange County of commercial lending by business revenue size compared to 2007 Dun & Bradstreet demographic data.

Borrower Distribution of Loans to Businesses Orange County Assessment Area June 2005 through December 2007		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	69%	7%
% of Bank Loans in AA by #	35%	65%
% of Bank Loans in AA by \$	38%	62%

**Demographic Data Source: 2007 Dun & Bradstreet – 24% of AA businesses did not report revenue data*

San Diego Assessment Area

Lending patterns in this assessment area do not compare closely with 2007 Dun & Bradstreet area demographics. For this analysis, we sampled 20 business loans the bank originated or purchased in the assessment area during the evaluation period. We compared the lending patterns to area demographics of small businesses (businesses with gross annual revenues of \$1 million or less). Based on the sample, the bank originated or purchased 50 percent of the number and 40 percent of the dollar volume of loans to small businesses. The 2007 Dun & Bradstreet business demographics, however, reflect that small businesses comprise 70 percent of area businesses.

As noted above, the bank initially originated or purchased loans to grow the loan portfolio regardless of size of the business. As the bank establishes its presence in the assessment area, management is committed to focusing on lending to small businesses, including lending under the Small Business Administration program.

The following table reflects the income distribution of commercial loans in the San Diego assessment area compared to 2007 Dun & Bradstreet data.

Borrower Distribution of Loans to Businesses San Diego Assessment Area June 2005 through December 2007		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	70%	5%
% of Bank Loans in AA by #	50%	50%
% of Bank Loans in AA by \$	40%	60%

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

Geographic Distribution of Loans

The geographic distribution of loans reflects reasonable dispersion throughout each assessment area and compares reasonably to area demographics. We randomly sampled 20 commercial loans the bank originated or purchased in each assessment area during the evaluation period. An analysis of performance in each assessment area follows.

Orange County Assessment Area

In the Orange County assessment area, the geographic distribution of loans is reasonable. Based on a random sample of 20 business loans, the bank made 25 percent of the number of loans to small businesses in moderate-income census tracts. This compares reasonably to demographic data, which show that 29 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 made or originated in these tracts. The bank does not arbitrarily avoid lending in low-income census tracts. The bank’s main office in the assessment area is located among mostly middle- and upper- income census tracts, and some moderate-income tracts, with low-income tracts located at a much further distance. Management plans to continue to seek opportunities to lend in these tracts over time.

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

Geographic Distribution of Loans to Businesses Orange County Assessment Area June 2005 through December 2007								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial Loan Sample	3%	0%	29%	25%	35%	20%	32%	55%

**Demographic Data Source: 2007 Dun & Bradstreet – 1% of AA businesses did not report geographic data*

San Diego Assessment Area

The geographic distribution of loans in the San Diego assessment area compares reasonably to area demographics. In particular, the bank achieved excellent distribution in moderate-income census tracts.

Based on a 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 are in moderate-income census tracts. However, no loans in our sample were made or originated in low-income census tracts, compared to area demographics showing that 5 percent of businesses are located in these tracts. The branch in Encinitas is not located in proximity to low-income tracts. The bank does not arbitrarily avoid lending in low-income census tracts, and management plans to continue to seek opportunities to lend in these tracts over time.

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

Geographic Distribution of Loans to Businesses San Diego Assessment Area June 2005 through December 2007								
Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial Loan Sample	5%	0%	22%	35%	37%	30%	36%	35%

*Demographic Data Source: 2007 Dun & Bradstreet

Responses to Complaints

Pacific Coast National 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.