

PUBLIC DISCLOSURE

November 27, 1995

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CenFed Bank, a Federal Savings Bank
OTS No. 01788

199 North Lake Avenue
Pasadena, California 91109

Office of Thrift Supervision
West Region
Post Office Box 7165
San Francisco, California 94120

Note: 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.

GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (CRA) performance of CenFed Bank, a Federal Savings Bank ("CenFed" or "institution"), prepared by the Office of Thrift Supervision (OTS), West Region, the institution's supervisory agency.

The evaluation represents the agency's current assessment and rating of the institution's CRA performance based on an examination conducted as of November 27, 1995. It does not reflect any CRA-related activities that may have been initiated or discontinued by the institution after the completion of the examination.

The purpose of the Community Reinvestment Act of 1977 (12 U.S.C. 2901), as amended, is to encourage each financial institution to help meet the credit needs of the communities in which it operates. The Act requires that in connection with its examination of a financial institution, each federal financial supervisory agency shall (1) assess the institution's record of helping to meet the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution, and (2) take that record of performance into account when deciding whether to approve an application of the institution for a deposit facility.

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Pub. L. No. 101-73, amended the CRA to require the Agencies to make public certain portions of their CRA performance assessments of financial institutions.

Basis for the Rating

The assessment of the institution's record takes into account its financial capacity and size, legal impediments and local economic conditions and demographics, including the competitive environment in which it operates. Assessing the CRA performance is a process that does not rely on absolute standards. Institutions are not required to adopt specific activities, nor to offer specific types or amounts of credit. Each institution has considerable flexibility in determining how it can best help to meet the credit needs of its entire community. In that light, evaluations are based on a review of 12 assessment factors, which are grouped together under 5 performance categories, as detailed in the following section of this evaluation.

ASSIGNMENT OF RATING

Identification of Ratings

In connection with the assessment of each insured depository institution's CRA performance, a rating is assigned from the following groups:

Outstanding record of meeting community credit needs.

An institution in this group has an outstanding record of, and is a leader in, ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Satisfactory record of meeting community credit needs.

An institution in this group has a satisfactory record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Needs to improve record of meeting community credit needs.

An institution in this group needs to improve its overall record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

Substantial noncompliance in meeting community credit needs.

An institution in this group has a substantially deficient record of ascertaining and helping to meet the credit needs of its entire delineated community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

DISCUSSION OF INSTITUTION'S PERFORMANCE

Institution rating:

CenFed is rated "Satisfactory record of meeting community credit needs" based on the findings presented below.

COMMUNITY REINVESTMENT ACT ASSESSMENT

Following are discussions of each of the 12 individual Assessment Factors found at 12 CFR 563e.7. The Assessment Factors are grouped into five Performance Categories for ease of reference, and do not appear in alphabetical order.

CRA Performance Categories

I. ASCERTAINMENT OF COMMUNITY CREDIT NEEDS

Assessment Factor A - Activities conducted by the institution to ascertain the credit needs of its community, including the extent of the institution's efforts to communicate with members of its community regarding the credit services being provided by the institution.

The institution has its loan officers and community lending coordinators maintain regular contacts with a large range of individuals and groups within its community. These contacts represent individuals, financial intermediaries, nonprofit organizations, and local government agencies within its community. In addition, in an effort to ascertain the credit needs of its community, the institution has conducted consumer credit surveys and implemented a process for evaluating successful loan programs offered by local financial institutions. Furthermore, each week the institution's staff loan officers meet to discuss CenFed's lending efforts and to discuss market preferences and competitors' loan products and pricing.

Assessment Factor C - The extent of participation by the institution's board of directors in formulating the institution's policies and reviewing its performance with respect to the purposes of the Community Reinvestment Act.

The institution's Board of Directors (Board) has demonstrated that CRA is an important component of its planning process through the establishment of a directors' CRA Committee, the appointment of a CRA Officer, and the adoption of a formal CRA program.

Throughout our review period, the institution's CRA performance has been monitored by the Directors' Community Investment Committee (DCIC). During our review period, the DCIC met at least each quarterly and was composed of Chairman of the Board, President, and one outside director. The DCIC is responsible for oversight of the institution's fair lending policies, procedures, and practices, the annual review of the bank's CRA Statement and material changes to these programs, and the implementation of any necessary corrective actions identified through its monitoring activities. The minutes and exhibits to the DCIC meetings indicate that the committee regularly evaluates loan originations, loan denials, applications for low- and moderate-income lending, minority lending, CRA marketing, lending within the institution's effective lending territory, and compliance with CRA goals. The review of the DCIC meeting minutes indicate that management has identified and is monitoring the institution's weakness in meeting the credit needs of the Hispanic and low- and moderate-income segments of its community.

In September 1995, the institution appointed a new CRA Officer. The CRA Officer is regarded as competent and qualified and an effective advocate of CRA compliance. Throughout our review period, the institution's CRA performance was found to be well documented and presented to the examiners in a logical and orderly manner.

The institution's annual CRA goals and objectives are detailed in its Community Lending Marketing Plan. The plan, which is approved by the institution's Board, details the institution's low- and moderate-income penetration goals. During 1994 the institution was able to accomplish its goal of increasing originations in low- and moderate-income areas to 13 percent. For 1995 the institution's goal was to double the number of low- and moderate-income loan applications over 1993 levels. During our examination, management indicated that for 1995, the institution was on target for meeting its 1995 goal of doubling the number of low- and moderate-income loan applications over 1993 levels.

II. MARKETING AND TYPES OF CREDIT OFFERED AND EXTENDED

Assessment Factor B - The extent of the institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the institution.

The institution's CRA marketing strategy is outlined each year in a plan that is approved and monitored for effectiveness by the institution's Board. During our review period, the institution's loan marketing efforts were designed to inform a broad segment of its community with a particular emphasis on penetrating low- and moderate-income and minority areas.

The institution's marketing efforts are based on advertising campaigns that are coordinated with loan officers' interaction with consumers, Realtors and other professionals in the business community. Marketing media used during our review period included newspaper advertisements, direct mailings, radio spots, loan information booths at community functions, fliers, sponsorship, posters, and community homebuyers seminars.

In its attempts to attract low- and moderate-income and Hispanic loan applications, the institution has conducted Spanish language radio spots, advertised in Hispanic newspapers, established information booths in Hispanic community functions, and conducted bilingual homebuyers seminars. The institution's strategy for penetrating the Hispanic segment of its community was coordinated by the institution's bilingual loan agents.

Assessment Factor I - The institution's origination of residential mortgage loans, housing rehabilitation loans, home improvement loans, and small business or small farm loans within its community, or the purchase of such loans originated in its community.

The institution has undertaken significant efforts to affirmatively address a substantial portion of its community credit needs through the origination and purchase of loans within its community. In addition, a significant volume of the institution's loans are within its delineated community.

During 1993, 1994, and year-to-date September 30, 1995, the institution's mortgage loan originations and purchases totaled \$570.0 million, \$661.0 million and \$281.0 million, respectively. The institution's lending (including loan purchases) during the these three periods rank CenFed in the top 17th percentile of its asset size peer group. CenFed's peer group is composed of seventeen OTS West Region supervised institutions with assets between \$1.0 billion and \$5.0 billion. During our review period, approximately 72.0 percent of its 1-4 single family loan applications were within its delineated community.

Assessment Factor J - The institution's participation in governmentally-insured, guaranteed or subsidized loan programs for housing, small business, or small farms.

The institution affirmatively participates in governmentally-insured or guaranteed loan programs for housing and small businesses. During our review period, the institution directly originated 63 SBA loans totaling \$25.9 million. In addition, in June 1995, the institution acquired \$73.6 million in SBA loans by purchasing the assets of the largest SBA lender in Los Angeles County. Approximately 54.0 percent of the institution's SBA loans were in low- and moderate-income areas.

The institution processes Federal Housing Administration (FHA) and Veterans Administration (VA) loans. During our review period, the institution originated twenty FHA/VA loans totaling \$1.9 million. In addition, the institution purchased one Federal Housing Administration pool of loans totaling \$1.3 million and seven Government National Mortgage Association pool loans totaling approximately \$45.5 million.

III. GEOGRAPHIC DISTRIBUTION AND RECORD OF OPENING AND CLOSING OFFICES

Reasonableness of Delineated Community

CenFed has branch offices in Los Angeles, Orange, San Bernardino, and Riverside Counties. The institution has defined its delineated community ("assessment area") as that area within these four counties where it has derived a significant portion of its lending and deposit activities. The institution's assessment area was defined using natural and manmade barriers including city and county boundaries, as well as major highways. The institution's assessment area consists of whole census tracts and does not reflect illegal discrimination and does not arbitrarily exclude any low- or moderate-income areas. Collectively, during 1994, the institution's assessment area represented 92.0 percent of loan applications received and 96.0 percent of deposits received.

Assessment Factor E - The geographic distribution of the institution's credit extensions, credit applications, and credit denials.

The institution's geographic distribution of credit activities indicates that the institution made significant progress in serving the low- and moderate-income segments of its community.

CenFed is primarily a 1-4 Single Family Residence (SFR) lender. During our review period, over 83.0 percent of the institution's mortgage loan originations were 1-4 SFRs.

At our prior examination, approximately 8.0 percent (during 1993) of the institution's lending was in low- and moderate-income neighborhoods. From the fourth quarter of 1993 through November 30, 1995, approximately 14.4 percent of the institutions 1-4 SFR loan originations were in low- and moderate-income neighborhoods. During our review period, the institution significantly improved its applications from low- and moderate-income areas to levels that approximate the 1994 MSA aggregate averages in its various markets. However, the institution's record of applications from low- and moderate-income area in Orange County exhibited a negative trend.

Loan Applications within Low- and Moderate-Income Areas

<u>MSA</u>	<u>CenFed 1994</u>	<u>1994 MSA Aggregate Averages</u>	<u>CenFed YTD 11/30/95</u>
Los Angeles Co.	9.9%	17.1%	16.9%
Riverside- San Bernardino Co.	14.9%	20.1%	16.0%
Orange Co.	15.9%	21.3%	8.6%

Assessment Factor G - The institution's record of opening and closing offices and providing services at offices.

CenFed has 18 full service branches; five branches are located in low- and moderate-income areas. These branches provide a full range of deposit, lending, and financial services and hours that provide reasonable access to its broad community.

During our review period, the institution had a net increase of five branches. This was accomplished through the purchase of 10 branches, selling 4 branches, consolidating one branch and swapping 3 branches. Prior to a branch transaction, the institution assesses the impact on its local community. The institution's branch transactions did not materially impact the ability of its community to obtain banking services.

IV. DISCRIMINATION AND OTHER ILLEGAL CREDIT PRACTICES

Assessment Factor D - Any practices intended to discourage applications for types of credit set forth in the institution's CRA Statement(s).

The results of our examination disclosed that the institution satisfactorily solicits credit applications from all segments of its local community. CenFed has formal written policies, procedures, and training to support nondiscrimination in lending and credit activities.

Assessment Factor F - Evidence of prohibited discriminatory or other illegal credit practices.

The findings of this examination disclosed that CenFed is in compliance with with the provisions of the antidiscrimination laws and regulations, including: the Equal Credit Opportunity Act, the Fair Housing Act and the Home Mortgage Disclosure Act. Compliance with the foregoing regulations is reinforced with policies and training, and monitored for effectiveness by periodic analysis of loan denial data and the sampling of approved loans for disparate treatment of borrowers. However, the institution's lending statistics indicate that relative to the demographics of its community, it is underserving the Hispanic segment of its community. During 1993, loan applications and originations from Hispanic applicants represented 9.0 percent of SFR originations and 12.0 percent of CenFed's total lending, respectively.

The institution has a "second review" process which reviews all denied loans for possible discriminatory treatment. In addition, the institution has a quality control function which conducts a minimum 10.0 percent sampling of all 1-4 SFR loan applications (approved and denied) for compliance with the institution's underwriting guidelines and applicable federal regulations. The results of these reviews are presented to the Directors Community Investment Committee each quarter. The results of this examination determined that the institution's "second review" and 10.0 percent sampling processes are an effective tool for promoting compliance with the nondiscrimination regulations and its own underwriting guidelines.

	<u>Bank Wide:</u> <u>Applications</u>	<u>10/93 - 11/95</u> <u>Originations</u>	<u>Aggregate Demographics</u> <u>of Inst.'s Four County</u> <u>Delineated Community</u>
Asian	6.2%	7.1%	8.0%
Black	4.9%	5.7%	6.2%
Hispanic	11.9%	14.6%	29.2%
White	77.0%	72.6%	56.6%

During our examination we reviewed a sample of 21 denied/withdrawn loan applications for evidence of prohibited discriminatory practices. The files reviewed spanned our entire two-year review period. The findings of our review did not disclose any discriminatory treatment of credit applications and disclosed that the institution's internal controls are an effective mechanism for the nondiscriminatory treatment of credit applications.

V. COMMUNITY DEVELOPMENT

Assessment Factor H - The institution's participation, including investments, in local community development and redevelopment projects or programs.

During our review period, the institution was found to be active in community development and redevelopment programs within its community. The most significant of the institution's activities are described below.

The institution is involved in several neighborhood housing services groups. The purpose of these organizations is to foster community development in low- and moderate-income neighborhood. The institution was involved with several neighborhood housing service groups such as Pasadena Neighborhood Housing Services Inc., and Los Angeles Neighborhood Housing Services. During our review period, the institution funded ten neighborhood housing services loans totaling \$720,110.

CenFed is a member of the Savings Association Mortgage Corporation (SAMCO), a shared credit organization which provides financing for affordable housing projects throughout California. During our review period, CenFed invested in six projects totaling approximately \$1.2 million and made commitments to invest in three projects totaling \$209,900.

During our review period, the institution established a \$500,000 revolving line of credit, at 1/2 percent above 11th District Cost of Funds, for the San Gabriel Valley Habitat For Humanity (Habitat). These funds are to be used to increase affordable housing in the San Gabriel Valley area, and to enhance the opportunities of very low- and low-income residents. In addition, during our review period, the institution became a participant in a \$510,000 construction loan package to build 34 affordable Habitat homes in Los Angeles County. During this review period, CenFed disbursed \$23,572 for the construction of 11 homes and remains committed to disburse up to \$69,000 for the construction of the remaining units.

During our review period, the institution originated 10 multifamily and 2 commercial mortgage loans totaling approximately \$4.0 million in low- and moderate-income areas. Furthermore, as alluded to in Factor J, approximately 54.0 percent of its SBA loans were originated in low- and moderate-income areas.

Assessment Factor K - The institution's ability to meet various community credit needs based on its financial condition and size, legal impediments, local economic conditions and other factors.

The institution generally supports promoting economic revitalization and growth, consistent with its size, financial capacity, location, and current economic conditions. The institution's support of its community has taken the form of direct loans, loan purchases, investments, financial services and technical assistance to the public sector and community organizations.

Assessment Factor L - Any other factors that, in the regulatory authority's judgment, reasonably bear upon the extent to which an institution is helping to meet the credit needs of its entire community.

The institution has demonstrated a willingness to explore other activities, not covered under other performance categories, in its efforts to help meet community credit needs. These activities are detailed below.

The institution has conducted or participated with other lenders in several community homebuyers campaigns. These programs work to educate potential homebuyers with regard to the homebuying process. During our review period, these campaigns have included: "The American Dream Coalition"; "Opening the Door to a Home of Your Own"; and the Head Start Campaign.

The institution has established a loan referral program. This program refers a denied loan applicant to another lender if the applicants failed to qualify for a loan under CenFed's underwriting criteria.