



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**May 15, 2006**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Commerce National Bank  
Charter Number 24404**

**279 East Orangethorpe Avenue  
Fullerton, CA 92832**

**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”.**

The major factors that support this rating include the following:

- The geographic distribution of business loans reflects good dispersion throughout the bank’s assessment area (AA) and exceeds the standard for satisfactory performance.
- The bank originated and purchased a majority of its loans within the AA and meets the standard for satisfactory performance.
- The loan-to-deposit ratio meets the standard for satisfactory performance given the bank’s size, financial condition, and AA credit needs.
- The pattern of lending to small businesses does not compare favorably to the demographics of the area and does not meet the standard for satisfactory performance. This is attributable to management’s initial loan growth strategies during its early years of operation. However, management expects the level of lending to small businesses to increase over time as this relatively new bank continues to grow.
- There were no public complaints about the bank’s CRA performance.

## **DESCRIPTION OF INSTITUTION**

Commerce National Bank (CNB) is a \$130 million community bank that opened for business on December 17, 2003. The main office is located in a moderate-income census tract in Fullerton, California, and a branch is located in a middle-income census tract in Irvine, California. This is the bank’s first CRA performance evaluation since opening.

There are no legal, financial, regulatory, or other factors impeding the bank’s ability to meet the credit needs of its AA. CNB’s primary focus is lending to small- and medium-sized businesses. It actively seeks to serve the banking needs of the professional services industries: accounting, legal, and medical professionals. Loan products include lines of credit, business, construction, commercial real estate, Small Business Administration (SBA), and personal loans. The bank offers a full range of deposit services, as well as access to Internet banking, and maintains an automatic teller machine (ATM) at the Fullerton location.

The following table shows the composition of the bank's loan portfolio by major product type as of March 31, 2006.

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>As of March 31, 2006</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial Real Estate and Construction	\$44,683	55%
Commercial Loans	\$16,281	20%
Residential Real Estate-Secured	\$ 3,914	5%
Consumer	\$15,932	20%
<b>Total:</b>	<b>\$80,810</b>	<b>100%</b>

Source: Consolidated Report of Condition and Income

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's AA meets the requirements of the regulation and it does not arbitrarily exclude low- or moderate-income geographies. The AA consists of 577 whole census tracts among the 34 cities of the Orange County MSA. According to the 2000 U.S. Census, 4% of the area consists of low-income census tracts, 27% moderate-income, 33% middle-income, and 36% upper-income tracts. The census tracts along the eastern, southern, and western regions of the AA are primarily middle- and upper-income levels. Most of the low- and moderate-income level census tracts are in the northwest quadrant of the AA. The Department of Housing and Urban Development reported 2005 median family income of \$75,700 in the area. Approximately 8% of the households were below the poverty level. Median housing value was \$275,476, and 59% of the housing units were owner occupied.

Orange County is the second largest county in California. It covers 798 square miles, including 42 miles of coastline and nine beaches. The Orange County AA is very diverse, and no single racial or ethnic group comprises more than 50% of the total population. The total population in the defined AA was 2,846,289 according to the 2000 Census. The Los Angeles County Economic Development Corporation provides a more recent population estimate of 3.1 million as of July 2003.

Orange County has a robust economy with economic output and employment well distributed among the market sectors. The Employment Development Department reports the largest labor markets are trade, transportation, utilities, business and professional services, and manufacturing. The non-farms jobs created in 2005 totaled 20,400, which was a 1.4% growth rate. The Southern California Association of Governments projects a 1.5% growth rate in 2006. The estimated unemployment rate was 3.8% in 2005 and 3.5% is forecast for 2006. Forbes ranked Orange County 27th overall out of the 150 metro areas for the best places for business in 2005. Orange County ranked favorably in crime rate, number of engineers, and leisure activities but fell among the lowest ranks for cost of doing business and cost of living.

The Dun & Bradstreet 2005 economic data shows 269,253 businesses operated within the bank's defined AA. Of those that report their revenues (2,978 farm-related and 266,275 non-farm businesses), 64% had revenues of \$1 million or less and 6% had revenues greater than \$1 million.

Competition for market share throughout the AA is strong. There are several community banks, a branch of a mid-sized state-chartered bank, as well as branches of large statewide banks in the area. CNB is the only community bank headquartered in Fullerton, and primary competition in the local area comes from U.S. Bank and Wells Fargo Bank.

Community organizations contacted by bank regulators identified affordable housing and small business lending, including small-sized loans for small businesses, as primary needs in the AA.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

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

CNB's loan-to-deposit ratio meets the standard for satisfactory performance. We analyzed the average quarterly loan-to-deposit ratio for the nine quarters after the bank opened through March 2006. During this period, the bank's ratio averaged 54%. We compared the ratio with that of five peer banks in the bank's AA that are similar in asset size. The average quarterly loan-to-deposit ratio for the peer group was 73%, ranging from 61% to 90% among the five banks. While CNB's average ratio is less than the peer average, the bank's ratio increased significantly from 33% as of March 2004 to 76% as of March 2006.

The bank's average ratio is less than the peer average because CNB has been open slightly more than two years compared to the more established peer institutions that have had more time to grow. As expected for a relatively new bank, CNB's deposit growth exceeded loan growth during the early years of operation.

### **Lending in Assessment Area**

The bank originated a majority of its loans by dollar volume within its AA and the bank meets the standard for satisfactory performance.

In order to meet the standard of performance for this criterion, a bank needs to originate at least 50% of the number of loans and 50% of the dollar volume within its defined AA. We found that CNB originated 50% of the number of loans and 64% of the dollar volume within its AA. We based this conclusion on our random sample of 20 commercial and consumer loan originations and purchases from the date the bank opened through March 2006.

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

CNB's pattern of lending to businesses of different sizes within the AA does not compare similarly to area demographics and does not meet the standard for satisfactory performance.

We focused this analysis on commercial loans since they represent the substantial majority of the bank's lending activity. We found that the percentage of loans both by number and by dollar volume that CNB granted to small businesses (having annual revenues of \$1 million or less) is considerably less than the percentage of small businesses in the AA.

Management explained that the bank does not discourage relationships with smaller companies. Rather, the bank has successfully grown the portfolio during its early years of operation primarily from lending relationships CNB officers brought to the bank from employment at other financial institutions and from subsequent referrals. These were in large part businesses with substantial annual revenues. Analysis of sample data by loan size; however, reflects that 90% of the commercial loans consisted of small-sized loans (less than \$1 million), which is an identified community credit need. In addition, management recently established a Small Business Administration loan program and expects to increase its lending to small business over time and as the bank grows.

The following tables display the lending patterns based on our sample of commercial loan data.

<b>Borrower Distribution of Loans to Businesses in the Assessment Area</b>		
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000
% of AA Businesses*	64%	6%
% of Bank Loans in AA by #	35%	65%
% of Bank Loans in AA by \$	33%	67%

\* Demographic Data Source: 2005 Dun & Bradstreet; 30% of AA businesses did not report revenue data.

<b>Borrower Distribution of Loans to Businesses by Loan Size in the Assessment Area</b>				
Loan Size (000's)	Number of Loans	Percent of Number	Dollar Volume of Loans	Percent of Dollar Volume
\$0 - \$100,000	3	15%	275,000	3%
\$100,001 - \$250,000	6	30%	1,184,641	12%
\$250,001 - \$500,000	3	15%	1,045,000	11%
\$500,001 - \$1,000,000	6	30%	4,630,506	47%
Over \$1,000,000	2	10%	2,723,606	27%

Source: Random sample of business loans.

## Geographic Distribution of Loans

The geographic distribution of loans reflects good dispersion throughout the AA and it exceeds the standard for satisfactory performance.

We focused this analysis on commercial loans since they represent the substantial majority of the bank's lending activity. According to area demographics, 3% of businesses are located in low-income census tracts and 29% of businesses are located in moderate-income tracts. The bank's geographic distribution of loans compares favorably to the demographics, with 5% of commercial loans located in low-income tracts and 35% of commercial loans located in moderate-income tracts.

The following table displays the bank's geographic lending patterns based on our random sample of 20 business loans.

<b>Geographic Distribution of Loans to Businesses in the Assessment Area</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 loans	3%	5%	29%	35%	36%	40%	32%	20%

*Source: 2005 Dun & Bradstreet and loan sample of business loans.*

## Responses to Complaints

The bank has not received any written complaints associated with its performance under the provisions of the Community Reinvestment Act during the 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.