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Comptroller of the Currency  
Administrator of National Banks

SMALL BANK

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## **PUBLIC DISCLOSURE**

July 6, 1999

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

**GOLETA NATIONAL BANK  
Charter Number 21699**

**5827 Hollister Avenue  
Goleta, California 93117**

**Comptroller of the Currency  
550 North Brand Boulevard, Suite 500  
Glendale, California 91203**

<p><b>NOTE:</b>      <b>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.</b></p>
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## 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 **Goleta National Bank**, prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **July 6, 1999**. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.

## 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.

**Census Tract (CT)** - Small, locally defined 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 ten year census and an average population of 4,000.

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

**Assessment Area** - A geographical area which 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 institution has its main office, branches, and deposit-taking automated teller machines.

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

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, and its disposition (e.g., approved, denied, withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every ten years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income Family or Geography** - Income levels that are less than 50% of the MFI.

**Moderate-Income Family or Geography** - Income levels that are at least 50% and less than 80% of the MFI.

**Middle-Income Family or Geography** - Income levels that are at least 80% and less than 120% of the MFI.

**Upper-Income Family or Geography** - Income levels that are 120% or more of the MFI.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Small Business Loans** - Loans with an original amount of \$1 million or less for which the institution is required to collect and report certain monitoring data under the CRA regulation.

**Small Farm Loans** - Loans with an original amount of \$500 thousand or less for which the institution is required to collect and report certain monitoring data under the CRA regulation.

## **SCOPE OF THE EXAMINATION:**

We evaluated Goleta National Bank's CRA performance based on lending activity between January 1, 1997, and March 31, 1999. We considered 100 percent of the HMDA loans made during this period. We also chose a sample of 48 business loans made between January 1, 1997, and December 31, 1998. We selected a sample of business loans because the bank is not required to collect revenue information for its borrowers and elected not to do so.

## **INSTITUTION'S CRA RATING:** This institution is rated **Satisfactory.**

The bank's rating is primarily based on its performance in the Santa Barbara assessment area. Less consideration was given to the bank's performance in the Ventura assessment area, since the bank only recently established a branch in that assessment area.

- # The bank's average loan-to-deposit ratio exceeds the standard for satisfactory performance.
- # The distribution of loans to borrowers of different income levels and businesses of different sizes meets the standard for satisfactory performance.
- # The distribution of loans among the various geographies within the assessment areas is satisfactory.
- # The bank's record of lending within its assessment areas meets the standard for satisfactory performance. The majority of loans by number were not made within the assessment areas. However, the majority of the loan dollars were extended to borrowers within the assessment areas. The majority of loans by number were not made within the assessment areas because the bank aggressively markets its loan products through loan production offices (LPOs), the majority of which are located outside the assessment areas.

## **DESCRIPTION OF INSTITUTION:**

Goleta National Bank (GNB) is a full service commercial bank established in 1989. GNB is a wholly owned subsidiary of Community West Bancshares (CWB), a bank holding company. CWB also owns 100 percent of Palomar Savings and Loan Association (Palomar) and a 70 percent interest in Electronic Paycheck, LLC (Paycheck). Palomar, located in Escondido, CA, has total assets of approximately \$83 million and operates two full service branches. Paycheck issues Adebit cards@ which allow companies to pay their employees electronically. The card allows people who do not have a banking relationship an inexpensive way to move away from an all cash environment.

GNB=s total assets are approximately \$215 million. The bank=s main and corporate offices are located at 5827 Hollister Avenue, Goleta, CA. During 1998, the bank established a branch in Ventura, CA. GNB did not close any branches since our last examination.

In addition to its two full service branches, GNB operates fourteen (14) Loan Production Offices (LPOs). They facilitate the origination of mortgage and Small Business Administration (SBA) loans. LPOs are located in the following California counties: Costa Mesa, Fresno, Marin, Orange, Sacramento, San Francisco, and Santa Barbara. The bank also maintains LPOs in the states of Florida, Georgia, and, North and South Carolina. LPOs in Las Vegas and Reno Nevada were closed on May 31, 1999, and June 4, 1999, respectively. These closures have not adversely affected the availability of credit or banking services in GNB=s assessment areas.

The bank has one full service automated teller machine (ATM) located at the main office. Bank customers also have access to ATMs linked to the Star, Cirrus, and Interlink Systems. This limits service to cash withdrawals only. The bank does not impose a surcharge on bank customers who use ATMs owned by other banks nor does the bank assess a fee for customers of other banks who use GNB=s ATM.

GNB=s primary lending focus is 1-4 family residential real estate loans and SBA loans. GNB securitizes or sells the majority of these loans in the secondary market while retaining servicing. At March 31, 1999, the loan portfolio consisted of approximately 75 percent residential real estate, 23 percent business, and 2 percent consumer loans.

GNB is one of the largest SBA lenders in Southern California. It has been designated a Preferred SBA lender since 1995. This designation allows the bank to approve SBA loans more quickly than financial institutions which do not have such designations. The bank operates in a highly competitive banking environment. Competition includes a number of community banks, thrifts, mortgage brokers, credit unions, insurance companies, brokerage companies, and branches of multinational and regional banks. The bank has no financial or legal impediments that will affect its ability to help meet the credit needs of its assessment areas. At the prior examination dated March 31, 1997, the bank=s CRA performance was rated ASatisfactory.@

## **DESCRIPTION OF ASSESSMENT AREAS:**

Goleta National Bank has two assessment areas. One assessment area comprises all of Santa Barbara County. It is designated the Santa Barbara Metropolitan Statistical Area (MSA). The second assessment area comprises all of Ventura County. It is designated the Ventura MSA. Both assessment areas meet the requirements of the regulation and do not arbitrarily exclude low- and moderate-income geographies.

### **Santa Barbara Assessment Area**

The University of California Economic Forecast Project estimated the 1998 total population of the assessment area at 405,000 and the median home sales price at \$243 thousand. The 1998 median family income determined by the Department of Housing and Urban Development was \$51,400. With regard to housing affordability, there is a wide disparity of home values and incomes by city within the county that complicate the affordability issue. Less expensive housing is more easily found in the North County areas of Lompoc, Santa Maria, and Buelton. More expensive housing prevails in the South County areas of Goleta, Santa Barbara, Carpinteria, and Montecito.

Home sales in the assessment area recorded a banner year in 1997 with sales increasing 24 percent and selling prices rising 22 percent to an all time high. During 1998, sales declined 9.8 percent but the median price jumped 17 percent to \$445 thousand. Home price appreciation has outpaced income growth in the South County areas, but not in the North County areas.

Affordable housing in the South County is in short supply primarily due to growth restrictions. At the time of the 1990 census, owner-occupied housing in the assessment area comprised 51 percent of total housing units. Due to the scarcity of affordable housing, 43 percent of all available housing units in the assessment area were rental.

The assessment area comprises 82 census tracts, of which only one is low-income. Although, the assessment area includes only one low-income census tract, 10 percent of the total population live below the poverty level. The one low-income census tract is located in the community of Isla Vista. The University of California is adjacent to Isla Vista. The majority of Isla Vista's population is students. However, due to the shortage of affordable housing, Isla Vista also attracts low-income renters employed in the agricultural and service industries. The following table shows the number and percentage of census tracts and families in the assessment area by income level:

Characteristics of Santa Barbara Assessment Area				
Income Level of Census Tracts	Number of Census Tracts	Percentage of Census Tracts	Families (1990 Census)	Percentage of Families
Low	1	1%	17,076	19%
Moderate	23	28%	15,835	18%
Middle	29	35%	19,797	23%
Upper	27	33%	34,802	40%
N/A	2*	3%	0	0
Total	82	100%	87,510	100%

\*No income reported.

Major industries in the assessment area include technology, oil and gas, manufacturing, defense, agriculture, tourism, retail and related service industries, and government. The assessment area is enjoying strong economic growth and has fully recovered from the economic recession of the early and mid 1990s. Overall, the assessment area is experiencing an increase in employment in both professional and agricultural job sectors. Housing costs continue to rise, thereby increasing the need for more affordable housing.

### **Ventura Assessment Area**

The University of California Economic Forecast Project estimated the 1998 total population of the assessment area at 730,800 and the median home sales price at \$192 thousand. The 1998 median family income determined by the Department of Housing and Urban Development was \$63,100. According to the 1990 census report, owner-occupied housing comprised 62 percent of total housing units. The remaining 33 percent of all available housing units in the assessment area were rental.

The assessment area comprises 130 census tracts, of which only four are low-income. Although only three percent of all census tracts are low-income, six percent of the total population live below the poverty level. The following table shows the number and percentage of census tracts and families in the assessment area by income level:

Characteristics of Ventura Assessment Area				
Income Level of Census Tract	Number of Census Tracts	Percentage of Census Tracts	Families (1990 Census)	Percentage of Families
Low	4	3%	30,739	18%
Moderate	39	30%	31,544	19%
Middle	58	45%	42,069	25%
Upper	28	21%	62,573	38%
N/A	1*	1%	0	0
Total	130	100%	166,925	100%

\*No income reported.

Major industries in the assessment area are agriculture, manufacturing, construction, oil and gas, retail and related service industries, professional services, high-tech industries, and tourism. Economic conditions are good and the area has also recovered from the economic recession of the early and mid 1990s. Real estate values are on the rise after suffering severe declines during the recessionary period. Most sectors of the economy are benefiting from improved sales and profitability. The assessment area is also experiencing an increase in employment in both professional and agricultural job sectors.

As part of this examination, we considered information obtained from a city housing authority, a community development department, and an economic development corporation. Our contacts identified the needs in both assessment areas as affordable housing for the low-income population, transitional housing for migrant farm workers, and home buyers assistance services. There is also a need for programs to rehabilitate the existing housing stock. In addition, there are continuing credit needs for start-up businesses and small business loans.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA**

The bank's CRA rating is based primarily on the lending activities within the Santa Barbara assessment area. The Ventura assessment area was established when GNB opened a branch there in September 1998.

**LOAN TO DEPOSIT RATIO:**

The bank's average loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. The bank's average LTD ratio for the twelve quarters ended March 31, 1999, was 86 percent. The average LTD ratio for four similarly situated banks was 73 percent. These four banks are all located in GNB's assessment areas and are of similar asset size.

GNB regularly sells residential mortgage loans and SBA loans in the secondary market. The sale of these loans provide a funding source for more loans. These loans are not reflected in the bank's LTD ratio.

**GEOGRAPHIC DISTRIBUTION:**

The bank's geographic distribution of loans meets the standard for satisfactory performance.

**Santa Barbara Assessment Area**

GNB's HMDA loans originated within the assessment area are reasonably distributed among the geographies. GNB did not fund any HMDA loans in the one low-income geography. This is reasonable as 97 percent of the occupied housing stock is rental and 85 percent is multi-family. None of the housing units are owner-occupied. The bank's penetration within the moderate-income geographies is modest, 73 percent of the occupied housing stock is comprised of rental units and 36 percent is multi-family. Owner-occupied units are 16 percent of available housing stock. As a result, there are limited opportunities for the bank to make HMDA loans in those geographies. The bank's penetration of middle-income and upper-income geographies is consistent with the housing demographics. Please refer to the table below for details.

Geographic Distribution of HMDA Loans Santa Barbara Assessment Area					
Income Level of Census Tract	Assessment Area	Penetration by Number of Loans		Penetration by Dollar Amount of Loans	
		Number	Percent	\$000's	Percent
Low	1%	0	0%	0	0%
Moderate	28%	145	12%	\$20,343	9%
Middle	35%	351	30%	\$53,608	23%
Upper	33%	693	58%	\$155,592	68%

Geographic Distribution of HMDA Loans Santa Barbara Assessment Area					
N/A*	3%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>1189</b>	<b>100%</b>	<b>\$229,543</b>	<b>100%</b>

\* No income reported.

The geographic distribution of business loans originated in the assessment area is good. Of the loans sampled, a majority both by number and dollar volume were made to borrowers in moderate-income geographies. GNB did not originate any business loans in the assessment area's one low-income geography. However, more than 70 percent of the businesses located within this geography are very small businesses (1-4 employees), which tend to self fund. Distribution within the middle- and upper-income geographies is satisfactory. Please refer to the table below for details.

Geographic Distribution of Business Loans Santa Barbara Assessment Area					
Income Level of Census Tract	Assessment Area	Penetration by Number of Loans		Penetration by Dollar Amount of Loans	
		Number	Percent	\$000s	Percent
<b>Low</b>	1%	0	0%	0	0%
<b>Moderate</b>	28%	18	64%	\$2,284,880	52%
<b>Middle</b>	35%	4	14%	\$697,270	16%
<b>Upper</b>	33%	6	22%	\$1,395,919	32%
N/A*	3%	0	0%	0	0%
<b>Total</b>	<b>100%</b>	<b>28</b>	<b>100%</b>	<b>\$4,367,069</b>	<b>100%</b>

\* No income reported.

### Ventura Assessment Area

GNB's HMDA loans are reasonably distributed among the geographies considering the recent establishment of this assessment area. Of the loans originated, 1 percent by number and less than 1 percent by dollar volume were within the low-income geographies. Within the moderate-income geographies, borrowers received 20 percent by number and 25 percent by dollar volume of the loans originated. The distribution among the middle- and upper-income geographies is consistent with the assessment area demographics. Refer to the table below for details.

Geographic Distribution of HMDA Loans Ventura Assessment Area					
Income Level of Census Tract	Assessment Area	Penetration by Number of Loans		Penetration by Dollar Amount of Loans	
		Percent	Number	Percent	\$000s
<b>Low</b>	3%	2	1%	\$63	0%
<b>Moderate</b>	30%	32	20%	\$3,852	25%
<b>Middle</b>	45%	86	53%	\$15,057	50%
<b>Upper</b>	21%	41	26%	\$8,620	25%
<b>N/A*</b>	1%	0	0%	0	0%
<b>Total</b>	100%	161	100%	\$27,592	100%

\*No income reported.

The distribution of business loans originated in the assessment area is good. This is based on our sample of 20 loans. GNBs lending by number and dollar volume of loans in the low-income geographies exceeded the assessment area demographics. Distribution within the moderate-income geographies is reasonable, although it is slightly less than area demographics. Lending within the middle-income geographies exceeded area demographics. And lending within the upper-income geographies was less than area demographics. Refer to the table below for details.

Geographic Distribution of Business Loans Ventura Assessment Area					
Income Level of Census Tract	Assessment Area	Penetration by Number of Loans		Penetration by Dollar Amount of Loans	
		Percent	Number	Percent	\$000s
<b>Low</b>	3%	2	10%	\$267	8%
<b>Moderate</b>	30%	5	25%	\$678	19%
<b>Middle</b>	45%	12	60%	\$2,505	72%
<b>Upper</b>	21%	1	5%	\$50	1%
<b>N/A*</b>	1%	0	0%	0	0%
<b>Total</b>	100%	20	100%	\$3,500	100%

\* No income reported.

**LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES:**

GNB’s lending to borrowers of different incomes and to businesses of different sizes meets the standard for satisfactory performance.

**Santa Barbara Assessment Area**

GNB’s lending in the assessment area to borrowers of different incomes is reasonable. The bank originated 1 percent both by number and dollar volume of its HMDA loans to low-income borrowers. This distribution is below the assessment area demographics, which shows 20 percent of the families are low-income. However, this is reasonable considering the high cost of housing is a barrier to these borrowers’ ability to purchase homes. Additionally, the bank sells 100 percent of the originated loans, which must be underwritten to satisfy purchaser requirements. Because of its size, GNB cannot afford to originate and portfolio these loans.

The percentage of loans extended to moderate-income borrowers was less than area demographics. These borrowers received 10 percent by number and 5 percent by dollar of the total loans funded. The high cost of housing is also a barrier to the borrowers’ ability to purchase homes. Middle- and upper-income borrowers received loans consistent with area demographics. Refer to the table below for details.

HMDA Loans to Borrowers of Different Incomes Santa Barbara Assessment Area					
Income Level of Families	Percent of Families	Number and Percent of Loans		Dollar and Percent of Loans	
		Number	Percent	\$ (000’s)	Percent
<b>Low</b>	20%	16	1%	\$1,487	1%
<b>Moderate</b>	18%	116	10%	\$11,581	5%
<b>Middle</b>	22%	256	22%	\$34,969	15%
<b>Upper</b>	40%	791	66%	\$180,037	78%
<b>N/A*</b>	0%	10	1%	\$1,469	1%
<b>Total</b>	100%	1,189	100%	\$229,543	100%

\*No income reported.

A majority of the number of business loans originated were to borrowers with business revenues of less than \$1 million. The dollar amount of loans to these businesses is less than the loans to businesses with revenues over \$1 million. This is expected given small businesses generally require smaller loans. The demographics of the assessment area show that 90 percent of the businesses reported revenues of less than \$1million, which indicates that there are opportunities for the bank to lend. Please refer to the table below for details.

Loans to Businesses of Different Sizes Santa Barbara Assessment Area					
Business Revenue*	Percent of Businesses in Area*	Number of Loans Sampled in Area	Percent of Number of Loans Sampled in Area	Loan Dollars in Area	Percent of Dollars in Area
Less than \$1 Million	90%	15	54%	\$1,828,703	42%
Over \$1 Million	10%	13	46%	\$2,538,366	58%
Total	100%	28	100%	\$4,367,069	100%

\* Dun & Bradstreet

### Ventura Assessment Area

Lending to borrowers of different incomes in the assessment area is reasonable, considering the office was only opened in September 1998. Loans to low- and moderate-income borrowers were less than the available opportunities. Low-income borrowers received 3 percent by number and 1 percent by dollar volume of the loans. Moderate-income borrowers received 17 percent by number and 13 percent by dollar volume. Loans to middle- and upper-income borrowers were consistent with area demographics. Refer to the table below for details.

HMDA Loans to Borrowers of Different Incomes Ventura Assessment Area					
Income Level of Families	Percent of Families	Number and Percent of Loans		Dollar and Percent of Loans	
		Number	Percent	\$ (000s)	Percent
Low	18%	5	3%	\$352	1%
Moderate	19%	27	17%	\$3,641	13%
Middle	25%	51	32%	\$6,808	25%
Upper	38%	76	47%	\$16,137	58%
N/A*	0%	2	1%	\$654	2%
<b>Total</b>	<b>100%</b>	<b>161</b>	<b>100%</b>	<b>\$27,592</b>	<b>100%**</b>

\*No income reported.

\*\* Rounded

Lending to businesses of different sizes in the assessment area is reasonable based on our sample of 21 loans. The majority of the number of loans were to borrowers with business revenues of less than \$1 million. However, slightly less than 50 percent of the dollar volume of loans were extended to businesses with revenues less than \$1 million. This is reasonable as small businesses usually need smaller loans. The demographics of the assessment area indicate that there are significant opportunities for the bank to lend to businesses with revenues of less than \$1 million. Please refer to the table below for details.

Loans to Businesses of Different Sizes Ventura Assessment Area					
Business Revenue	Percent of Businesses in Assessment Area	Number of Loans Sampled in Assessment Area	Percent of Number of Loans in Assessment Area	Dollar Amount of Loans made by Bank in AA	Percentage of Dollar Amount of Loans made in AA
Less than \$1 Million	90%	13	62%	\$1,510,313	43%
Over \$1	10%	8	38%	\$1,989,226	57%

Loans to Businesses of Different Sizes Ventura Assessment Area					
Million					
Total	100%	21	100%	\$3,499,539	100%

**OTHER LENDING ACTIVITY:**

The bank participates in the Cal Coastal Rural Development (CCRD) loan program. The primary mission of CCRD is the promotion of community economic development through the provision of credit and technical assistance to small farms and small businesses located on the central coast of California. CCRD is one of seven Economic Development Corporations chartered by the Trade and Commerce Agency - Office of Small Business. During 1998, the bank made seven loans to small businesses in participation with CCRD totaling \$269,431. While these loans have characteristics of Community Development Loans, they are accounted for under business lending.

**LENDING IN ASSESSMENT AREAS:**

GNB's record of lending within its assessment areas meets the standard for satisfactory performance.

Although the majority of loans by number were not made within the assessment areas, the majority of the dollar volume of GNB's loans were made to borrowers within the assessment areas. The majority of loans by number were not made within the assessment areas because the bank aggressively markets its loan products through its LPOs. The majority of them are located outside the bank's assessment areas. As a result, more loans were funded outside the assessment areas. These LPOs are not licensed branches of the bank. Consequently, they do not qualify for designation as additional assessment areas of the bank. Refer to the table below for details.

Loans Made Within Assessment Areas		
Total Loans by Number and Dollar	Number and Dollar Within the Assessment Area	Percent of Total Loans Made Within the Assessment Area
3,175	1,384	43%
\$389,338,920	\$262,700,737	67%

**RESPONSE TO WRITTEN COMPLAINTS:**

The bank has not received any CRA related complaints since the last CRA performance evaluation.

**RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS:**

The bank is in compliance with Fair Lending laws and regulations. Our Fair Lending examination, conducted concurrently with this examination, did not identify any unusual lending patterns or discriminatory lending practices.