



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

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PUBLIC DISCLOSURE

January 24, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**San Jose National Bank
Charter Number 17315**

**One North Market Street
San Jose, CA 95113**

<p>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.</p>

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 Community Reinvestment Act (CRA) performance of **San Jose National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of January 24, 1997. 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 **“Outstanding.”**

San Jose National Bank's CRA performance rating is based on the following factors:

(1) a loan-to-deposit ratio that significantly exceeds peer group comparisons; (2) a substantial majority of lending within their assessment area; (3) a majority of the bank's lending is to small businesses; (4) excellent dispersion of credit throughout Santa Clara County; and (5) the additional investments and services they provide to enhance credit availability in their assessment area.

The following table indicates the performance level of *San Jose National Bank* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	San Jose National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans	X		
Response to Complaints	N/A	N/A	N/A

DESCRIPTION OF INSTITUTION:

San Jose National Bank (SJNB) is a full service community bank operating in Santa Clara County. They are a wholly-owned subsidiary of SJNB Financial Corporation. The bank had total assets of \$288,084,000 as of September 30, 1996. SJNB operates one full service office and one office for factoring operations in downtown San Jose. The bank has a commercial banking focus with 91% of its portfolio consisting of loans to businesses, based on the September 30, 1996 Call Report. SJNB purchased California Business Bank, N.A. on October 1, 1994. California Business Bank, N.A. had a similar business focus, banking products, and target market as SJNB.

The assessment period of this evaluation is from the date of the last Community Reinvestment Act exam, dated May 31, 1994, to the current evaluation date.

DESCRIPTION OF ASSESSMENT AREA:

Santa Clara County is approximately 50 miles south of San Francisco, and is part of the San Jose Metropolitan Statistical Area (MSA). Santa Clara County includes the city of San Jose, which ranks as the Nation's 11th largest city, based on the 1990 census data. The county has a total population of 1.5 million and has 299 populated census tracts. Of these tracts, 11 (4%) are low income, 59 (20%) are moderate income, 159 (53%) are middle income tracts, and 70 (23%) are high income. Median Family Income in the MSA was \$53,711 annually. According to Housing and Urban Development (HUD) data, Median Family Income for 1996 was estimated at \$67,400 annually. Based on Regional Employment & Income Series (REIS) data, the primary industries are services (34%), manufacturing (24%), retail trade (14%), government (10%), financial services (6%), and wholesale trade (5%). The manufacturing sector primarily consists of the aerospace and computer industries.

The economy in Santa Clara County is very strong and is considered fully recovered from the recessionary downturn from a few years ago. The banking environment is very competitive with many branches of regional and multi-national banks as well as smaller independent banks serving the same area. Through our contact with bank management and a local community development corporation, the primary credit needs are flexible financing for personal debt, small businesses, and housing rehabilitation. Although credit is generally available for new affordable housing, construction is not that prevalent because the high cost of real estate makes these projects unfeasible without grant money. Housing rehabilitation has become an alternative to affordable housing construction, however, longer-term rehabilitation financing is not readily available.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio

- **San Jose National Bank's loan to deposit ratio significantly exceeds peer group averages and is more than reasonable given the bank's size, financial condition, and assessment area credit needs.**

Based on Call Report data, SJNB's net loans and leases to total deposits for the eight quarters ending December 31, 1994 to September 30, 1996 averaged 82.4%. This ratio is significantly higher than a local peer group average of 62.6%, for the same time period. This group was comprised of ten similarly-situated community banks operating within the same assessment area. SJNB also compared favorably to a peer group consisting of 241 community banks located in California, which averaged 68.9%.

Lending in the Assessment Areas

- **A substantial majority of loans are made within the bank's designated assessment area.**

A review of all new originations and renewals over a three month period between October 1, 1996 and December 31, 1996, demonstrated a substantial majority of loans were made within SJNB's assessment area of Santa Clara County. During this period, the bank made 168 loans totaling \$79,662,000. Of these,

147 (88%) were made within their assessment area. By dollar amount, \$69,747,000 (88%) were made within their assessment area.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

- **The distribution of lending among businesses of different sizes in Santa Clara County is very good. Given the demographics of the area and the business focus of the bank, borrower income was not analyzed due to the small percentage of consumer lending.**

To analyze the level of lending to small businesses, we used the proxy method. This method analyzes the bank's lending by loan size, and then samples smaller loans to establish a correlation between loan size and business size. Under this approach, we reviewed 146 commercial loans, totaling \$64,252,000 , originated from July 1, 1996 to December 31, 1996.

***Commercial Loan Originations By Loan Size
(July 1, 1996 to December 31, 1996)***

Loan Size	Number of Loans	Percentage of Lending
Less than \$100,000	45	31%
\$100,001-\$250,000	47	32%
\$250,001-\$500,000	25	17%
\$500,001-\$1,000,000	17	12%
Greater than \$1,000,000	12	8%

The chart above shows that the majority of the bank's loans were originated for \$250,000 or less. From that group, we sampled 25 loans and found that 84% were made to businesses with revenue of less than \$1,000,000. SJNB's efforts and level of lending shows a strong commitment to meeting the small business credit needs of their area.

Small business credit needs are also met through their factoring operations. SJNB's factoring product is an alternative for small businesses that do not qualify for conventional accounts receivable lending. In 1996, the bank purchased a total of \$81,236,700 invoices from 83 customers. Based on the bank's analysis, only three of these customers have annual revenue that exceeds \$1,000,000. We verified ten customer files and found all had annual revenue less than \$1,000,000.

Some of the commercial loans originated since the last examination were for community development purposes. These included loans for \$1,100,000 to fund ten affordable housing units and \$250,000 to fund the construction of 30 low-income housing units. The bank also made a \$1,550,000 loan to develop 109

affordable housing units. Additionally, a \$42,000 loan was made to Lenders for Community Development for small business lending.

Geographic Distribution of Loans

- **The geographic distribution of loans reflects excellent dispersion throughout Santa Clara County, especially in low- and moderate-income census tracts.**

A review of all loan originations and renewals in the fourth quarter of 1996 reflected excellent dispersion of credit throughout SJNB's assessment area of Santa Clara County. The percentage of the bank's loans in low- and moderate-income census tracts significantly exceeds the percentage of census tracts within the assessment area, as exemplified in the table below.

Geographic Distribution of Bank Loans

Tract Income	Tracts	%	Loans #	%	Loans \$ (000)	%
Low	11	4	18	12	15,138	22
Moderate	59	20	38	26	15,311	22
Middle	159	53	60	41	25,490	36
Upper	70	23	31	36	13,808	20
TOTAL	299	100	147*	100	69,747	100

* Primarily commercial loans.

While this analysis only covers one quarter of performance, it is a good reflection of their performance during the entire assessment period, based on the historically non-cyclical nature of loan growth. From a review of assessment area maps we determined that there are no significant gaps of lending in any geographic area.

Response to Complaints

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation.

Investments

SJNB is a shareholder of the Lenders for Community Development, a multibank Community Development Corporation. Their investment is \$17,000 in capital stock and an additional \$3,000 to fund annual expenses. The development corporation has funded 30 micro-business loans totaling \$692,000, and one housing rehabilitation loan of \$500,000.

Services

SJNB has provided many services to enhance the availability of credit within their assessment area:

- ◆ SJNB has “Preferred Lender” status from the Small Business Association (SBA). The bank provides underwriting and loan packaging services to the SBA under this status, which facilitates small business lending. In 1996, they originated 40 SBA Loans totaling \$14,061,100, and ranked fourth in SBA lending to Silicon Valley borrowers.
- ◆ The bank took a leadership role in funding the construction of 109 low income housing units. In addition to the \$1,550,000 funded by this bank (discussed earlier), SJNB facilitated the project by participating out the additional \$1,250,000.
- ◆ SJNB offers many alternative delivery and banking systems that facilitate credit availability within Santa Clara County. These include courier delivery, computer based-banking, Automated Clearing House services for payments and credits, banking by mail, and distribution of point-of-sale machines for credit and debit transactions.
- ◆ SJNB donates time and management expertise for many qualifying community development purposes. They have donated management expertise and employee time to the Lenders for Community Development, Goodwill Industries, Community Economic Development Lending Initiative, and SCORE (a non-profit group that specializes in small business consulting). They provided free cost consulting to a company formed to provide long term, non-conventional, low-income housing loans. Additionally, SJNB charges only nominal fees to administer and service The Lenders for Community Development's loan portfolio.
- ◆ The bank is located in a moderate-income tract which is located within the boundaries of a designated California Enterprise Zone. The bank's presence in this zone supports the Enterprise Zone Act of 1984, which was enacted to stimulate business and industrial growth in economically depressed areas.

Other Items

The bank is in compliance with anti-discrimination laws and regulations. These include the Equal Credit Opportunity Act, and The Fair Housing Act. Our Fair Lending Examination did not find any evidence to indicate discrimination against any protected classes.