



SMALL BANK

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

PUBLIC DISCLOSURE

April 19, 2004

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of California
Charter Number 17480**

**145 S. Fairfax Avenue
Los Angeles, CA 90036**

**Comptroller of the Currency
Southern California – North Field Office
550 North Brand Boulevard, Suite 500
Glendale, CA 91203**

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.

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INSTITUTION'S CRA RATING

This institution is rated Satisfactory.

This rating is based on the following factors of the bank's lending performance:

- The loan-to-deposit ratio exceeds satisfactory performance standards.
- A substantial majority of the bank's loans are within its assessment areas.
- The distribution of loans throughout the assessment areas is satisfactory.
- Lending to businesses of different sizes is reasonable.
- Community development lending activities support the bank's overall satisfactory rating.

DESCRIPTION OF INSTITUTION

National Bank of California (NBC) began operations in October 1982 as a business-oriented commercial bank. On September 24, 2000, NBC became a wholly owned subsidiary of NCAL Bancorp (a bank holding company). The bank has three branches, two of which are in the Los Angeles area and one in Orange County. The Fairfax District branch in Los Angeles opened in 1982 and the Sherman Oaks branch in the San Fernando Valley area of Los Angeles opened in 1998. As of March 31, 2003, these two branches originated 96 percent of total loans and 76 percent of total deposits of the bank. The Costa Mesa branch in Orange County opened in May 2002. As of March 31, 2003, this branch contributed four percent of total loans and 24 percent of total deposits. The bank did not close any branches during the evaluation period.

The bank provides automated teller machine (ATM) services at the Fairfax branch. Also, the bank is a member of the Star ATM Network, with many ATM locations in low- and moderate-income communities. The bank also provides all customers with 24-hour access to account information through the telephone (TeleBanking) and via the Internet (On-Line Banking). NBC's banking services to businesses includes commercial lending, cash management, and business deposit services. Services offered by the bank are the same at all branch offices. The hours of operation at the branches differ slightly. Please refer to the bank's *Public File* for details regarding terms and conditions of services and differences in branch hours of operation.

As of December 31, 2003, NBC reported assets of \$212 million, of which \$159 million (75 percent) were loans. The bank's loan portfolio consisted of the following loan types: \$83 million (52 percent) in commercial loans to businesses, \$52 million (33 percent) in commercial real estate, and \$15 million (10 percent) in construction loans. Consumer loans and leasing products were less than five percent of the loan portfolio.

Since 1988, the bank has been a Small Business Administration (SBA) Preferred Loan Provider

(PLP). The number and volume of SBA loans are growing. For example, in 2003, NBC originated 39 SBA loans totaling \$22 million or 14 percent of the total loan portfolio. In 2002, NBC originated 24 SBA loans totaling \$11.4 million or 8 percent of the portfolio. The bank periodically sells the guaranteed portion of SBA loans. The bank sold \$4.2 million and \$6.6 million in 2003 and 2002, respectively. In most cases, the bank continues to service these loans.

The bank has no legal or financial impediments that would adversely affect its ability to meet the credit needs of its assessment areas. The bank received a “Satisfactory” rating at its prior CRA performance review period, as of November 1, 1999.

DESCRIPTION OF ASSESSMENT AREAS

The bank has designated two Metropolitan Statistical Areas (MSAs) in Southern California as its assessment areas (AAs); the Los Angeles-Long Beach MSA and the Orange County MSA. Both AAs consist of the entire counties of each MSA. The AAs meet the requirements of the law and do not arbitrarily exclude low- and moderate-income geographies.

Los Angeles Assessment Area

The Los Angeles-Long Beach MSA is a complex, highly diverse urban area that includes 80 cities and a number of unincorporated areas. This AA consists of 2,054 census tracts, of which 179 are designated as low-income and 579 as moderate-income.

The Los Angeles-Long Beach MSA is California’s most populated MSA, accounting for 28 percent of the State’s population. The population is growing, and according to U.S. Census data for 2000 the AA population was 9.5 million. The unemployment rate has risen from 4.6 percent in January 2000 to 6.4 percent in December of 2003 according to the U.S. Bureau of Labor Statistics. The 2003 median family income as determined by the Department of Housing and Urban Development (HUD) is \$53,036. Home construction activity has continued to grow at a fast pace, driven by historically low interest rates. In 2003, the California Association of Realtors reported the average sales price for an existing single-family home increased to \$315,000.

The economy continues to recover from the set backs of the civil unrest in 1992, the Northridge earthquake of 1994, and the effects of terrorist activities associated with September 11, 2001. Los Angeles continues to be the entertainment capital of the world with many jobs dependent on television and film industries. The AA is also heavily dependent on domestic and international trade, with the ports of Los Angeles and Long Beach and several major airports playing key roles in this sector. The largest industries by employment are services, retail trade, finance and insurance, real estate, and wholesale trade.

Major banking institutions include Bank of America, Washington Mutual, Wells Fargo, and Union Bank of California. Despite continuing industry consolidation trends, there are many community banks and branches of regional and multi-national banks competing for business opportunities.

The bank’s competitors include branches of First Regional Bank, First Commerce Bank, First

Coastal Bank, and Alliance Bank.

We considered information from four community contacts: one federal agency, one community development company, and two small business development corporations. According to these contacts, the predominant credit needs of the community include affordable housing, financing to small and minority-owned businesses, including start up and micro-loan funding, and community lending. Other needs include technical assistance, participation on various non-profit organization committees, contributions to locally based pool loans, and financial grants.

Orange County Assessment Area

The Orange County MSA includes 16 cities and various unincorporated areas. This AA consists of 577 census tracts, of which 21 are designated as low-income and 157 as moderate-income.

Based on the U.S. Census data for 2000, the AA population was 2.8 million. According to the statistics of the U.S. Bureau of Labor the unemployment rate increased from 2.0 percent in January 2000 to 4.6 percent in December of 2003. The 2003 HUD median family income was \$69,844, which is higher than in neighboring counties. In 2003, the California Association of Realtors reported the average sales price for an existing single-family home increased to \$405 thousand.

The county's economy declined during the early 1990's for multiple reasons including the recession and a county bankruptcy. Downsizing in the aerospace and defense industries caused job losses and a decline in real estate values. In recent years, the economy has rebounded due to low interest rates and higher consumer spending. The largest industries are services, retail trade, finance and insurance, real estate, manufacturing, and wholesale trade.

NBC's presence in this AA is relatively new. Major banks include Bank of America, Washington Mutual Bank, Wells Fargo Bank and World Savings Bank. The bank's competitors are Bank of Orange County, First Credit Bank, and First Commercial Bank.

We considered information from one community contact that identified the major need for this area as affordable housing. Other needs include micro-loans for startups and emerging small businesses.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Scope of Examination

We evaluated the bank's performance based on loans originated between November 1, 1999, and December 21, 2003. We focused our evaluation on business loans, as this is the largest category of the bank's loan portfolio. We placed more emphasis on lending activities in the Los Angeles AA, given a substantial majority of loans and deposits are derived from this area, and the relative newness of the Orange County branch. Our sample consisted of 49 business loans originated within the Los Angeles AA and 20 business loans originated within the Orange County AA. As part of our analysis, we included business revenue information obtained from bank records.

Loan-to-Deposit Ratio

The bank's average loan-to-deposit ratio (LTD) exceeds the standard for satisfactory performance. The bank's average LTD for the 16 quarters ending December 31, 2003, averaged 82 percent. The ratio compares favorably to the 75 percent average LTD for the same time period of nine similar sized banks within the AAs.

The bank originates and sells a substantial volume of SBA loans. Between January 1, 2000, and December 31, 2003, the bank originated \$46 million in SBA loans and sold \$13.5 million. Had the bank not sold these loans, the bank's LTD ratio would have been higher.

Lending in Assessment Areas

NBC's lending in both AAs is good. A substantial majority of the loans originated by the bank were made within the bank's AAs. Refer to Table 1 below for details.

| Table 1 - Lending in Los Angeles and Orange County AAs | | | | | | | | | | |
|--|-----------------|-----|---------|----|-------|------------------|-----|----------|-----|-----------|
| Loan Type | Number of Loans | | | | | Dollars of Loans | | | | |
| | Inside | | Outside | | Total | Inside | | Outside | | Total |
| | # | % | # | % | | \$ | % | \$ | % | |
| Los Angeles AA | | | | | | | | | | |
| Business Loans | 47 | 96% | 2 | 4% | 49 | \$ 20,389 | 88% | \$ 2,820 | 12% | \$ 23,209 |
| Orange County AA | | | | | | | | | | |
| Business Loans | 19 | 95% | 1 | 5% | 20 | \$ 5,974 | 86% | \$ 960 | 14% | \$ 6,934 |
| Totals | 66 | 96% | 3 | 4% | 69 | \$ 26,363 | 87% | \$ 3,780 | 13% | \$ 30,143 |

Source: Loan Sample

Geographic Distribution of Loans

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

Los Angeles Assessment Area

The bank's overall distribution of business loans within low- and moderate-income geographies is generally consistent with the area demographics. Bank loans within low-income geographies are slightly below the demographics. However, bank loans exceeded the demographics in moderate-income areas. Refer to Table 2 below for details.

| Table 2 - Geographic Distribution of Loans to Businesses in Los Angeles AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| Business Loans * | 8% | 6% | 20% | 22% | 26% | 31% | 46% | 41% |

Source: Dunn and Bradstreet data; Loan sample; * 32% of AA businesses did not report revenue data

Orange County Assessment Area

The bank's overall distribution of business loans within low- and moderate-income geographies are generally consistent with area demographics. Bank loans within low-income geographies exceeded the demographics. However, bank loans in moderate-income areas are slightly below the demographics. Refer to Table 3 below for details.

| Table 3 - Geographic Distribution of Loans to Businesses in Orange County AA | | | | | | | | |
|---|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|--------------------|----------------------|
| 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 |
| Business Loans * | 3% | 5% | 29% | 26% | 36% | 21% | 32% | 47% |

Source: Dunn and Bradstreet data; Loan sample; * 31% of AA businesses did not report revenue data

Lending to Businesses of Different Sizes

The bank's origination of loans to businesses of different sizes is reasonable. Overall, the bank's lending to businesses with revenues of under \$1 million in both AAs is below the demographics. However, performance is reasonable. We give less weight to the performance in Orange County AA given 1) the recent opening of the branch and 2) the lower level of lending activities generated by this branch.

The bank recognized its need to expand lending activities to small businesses. Bank management recently hired two business development officers whose primary responsibility is to develop business-lending opportunities with businesses that have revenues under \$1 million. In addition, the bank increased its business lending activities in low- and moderate-income geographies through the assistance of the revised SBA Express Loan program. This program targets businesses with revenues under \$1 million.

Los Angeles Assessment Area

Lending to small businesses in this AA is below the demographics. However, the bank's overall lending performance by number of loans is consistent with the area's demographics, slightly favoring loans to businesses with revenues above \$1 million. Refer to Table 4 for more details.

| Table 4 - Borrower Distribution of Loans to Businesses in Los Angeles AA | | |
|---|--------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses* | 62% | 6% |
| % of Bank Loans in AA by # | 49% | 51% |
| % of Bank Loans in AA by \$ | 38% | 62% |

Source: Loan sample; Dunn and Bradstreet data; *32% of AA businesses did not report revenue data

Orange County Assessment Area

The bank's lending performance to small businesses in this AA is below the demographics. A majority of loans were made to businesses with revenues above \$1 million. Refer to Table 5.

| Table 5 - Borrower Distribution of Loans to Businesses in Orange County AA | | |
|---|--------------|--------------|
| Business Revenues (or Sales) | ≤\$1,000,000 | >\$1,000,000 |
| % of AA Businesses* | 63% | 6% |
| % of Bank Loans in AA by # | 32% | 68% |
| % of Bank Loans in AA by \$ | 17% | 83% |

Source: Loan sample; Dunn and Bradstreet data; *31% or 77, 143 of AA businesses did not report revenue data

Community Development Lending Activities

NBC recognized the need for community development lending, including affordable housing. The bank made loans in excess of \$6.5 million that have the characteristic of community development. A sample of these types of loans include:

- The bank made a \$1.65 million loan for the construction of a 35-unit apartment building in a middle-income census tract in City of Van Nuys. Six of the 35 units are committed to low- and moderate-income individuals only.
- In conjunction with the SBA, the bank made loans totaling \$1.2 million for the rehabilitation of a 48-bed and board care facility for the mentally impaired in a low-income geography in Los Angeles. The County of Los Angeles refers the tenants. Occupants receive government assistance.
- The bank made a \$1.2 million loan to rehabilitate a previously uninhabitable 39-unit apartment building that now provides affordable housing in a low-income census tract in Los Angeles.
- The bank made a \$500 thousand revolving line of credit for working capital that helped facilitate a total of \$20.5 million in loans for the construction of 223 subsidized low-cost housing units that benefited low- and moderate-income families. In addition, funds supported 150-beds for mentally handicapped senior housing facilities in the communities of Sylmar, Central Los Angeles, Pacoima, West Hollywood, and Compton. These loans were made possible through the participation of non-profit sponsors and government backed financing.
- The bank made a \$380 thousand loan for the rehabilitation of 9-unit apartment building in a moderate-income area located in a redevelopment zone in the City of Long Beach.
- Working with the City of Los Angeles Community Development Department and the California Technology and Commerce Department, the bank made a \$200 thousand loan to a non-profit organization. Funds were used to refurbish a government-subsidized facility in a moderate-income area of Los Angeles. The organization occupying the facility provides job training for adults and operates a 150-person childcare facility. These services are targeted towards low-income families.

Responses to Complaints

The bank has not received any complaints regarding its CRA performance.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or other illegal credit practices.