



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

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PUBLIC DISCLOSURE

October 31, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**First Pacific National Bank
Charter Number 17280**

**613 W. Valley Parkway
Escondido, CA 92025**

**Comptroller of the Currency
San Diego Duty Station
1925 Palomar Oaks Way, Suite 202
Carlsbad, CA 92008**

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.
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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 Community Reinvestment Act (CRA) performance of **First Pacific National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 31, 1996. 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 “satisfactory.”

First Pacific National Bank provides a variety of credit products and services to its community and makes a majority of its loans within its assessment areas (AA). The loan-to-deposit ratio is stable and satisfactory. The bank serves its community by lending to borrowers of different incomes and businesses of different sizes. Although the bank's lending volume in moderate-income geographies appears low in the Riverside AA, these areas are predominately military land serviced by a credit union located on the base. Further analysis shows that the bank lends to low- and moderate-income (LMI) individuals within that AA.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	First Pacific 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	

DESCRIPTION OF INSTITUTION:

First Pacific National Bank (First Pacific) opened in May 1982 under the name of Escondido National Bank. The bank's name changed to First Pacific in July 1993 when it merged with San Marcos National Bank and Temecula Valley National Bank. More recently, the bank acquired Overland Bank in 1995 and The Bank of Rancho Bernardo in 1996. First Pacific is 100% owned by FP Bancorp. As of October 1996, the bank reported total assets of \$291 million and total loans of \$207 million. The bank operates its main office in Escondido, CA, and has four other branches in San Diego county and three branches in Riverside County. In the past two years, the bank opened four branch offices (two acquired through mergers), and closed two branch offices (one in conjunction with a bank merger). In addition to *FPNB Infoline*, an automated telephone information service, six of the branches offer 24-hour banking services through onsite ATMs. First Pacific's lending strategy focuses on small- to medium-sized businesses, as well as professionals and individuals of all income profiles. The loan portfolio at October 1996 reflects the bank's lending strategy with commercial loans at 81%, 1-4 family real estate loans at 14%, and consumer loans at 5%.

The bank offers credit products consistent with its financial condition, size, and business strategy. This takes into account the condition of the local economy. There are no financial or legal impediments to the bank's ability to meet the credit needs of its AAs. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" by the OCC at its last CRA evaluation in April 1993.

DESCRIPTION OF THE BANK'S ASSESSMENT AREAS:

First Pacific has three AAs covering two Metropolitan Statistical Areas (MSA). The San Diego MSA includes five branches covering one AA. The Riverside MSA includes three branches covering two AAs.

The San Diego AA includes the inland communities of Escondido, Rancho Bernardo, Poway, Rancho Santa Fe, Lake San Marcos, San Marcos, Vista, and Valley Center, and the coastal community of Carlsbad and portions of Encinitas. All are within the San Diego MSA. The main office in Escondido, as well as the Valley Center and Rancho Bernardo branches are located in middle-income geographies. The San Marcos branch is located in a moderate-income geography, and the Lake San Marcos branch is located in an upper-income geography. As of the 1990 census, the AA had a population of 430,140. The San Diego MSA's 1990 census median family income was \$46,600. There are no low-income census tracts in the AA. The sixty-eight census tracts in the bank's San Diego AA are comprised of:

Census Tract Characteristic	Count	Percentage
Low-income	0	0
Moderate-income	12	18%
Middle-income	28	41%
Upper-income	28	41%

The San Diego AA's larger employers comprise a diverse group including service-related, government, retail, manufacturing, finance, insurance, and real estate industries. Banking services are highly competitive with numerous independent and branch-banking systems represented in the area. Additionally, the bank feels competitive pressures from nonbanks offering financial services, primarily lending.

The two Riverside AAs encompass Temecula and Moreno Valley. The first AA includes the incorporated city of Temecula and the unincorporated areas of Murrieta, Murrieta Hot Springs, Wildomar, and Lake Elsinore. Two of the bank's branches are located in this AA. The Temecula branches are located in upper-income geographies, and there are no low- or moderate-income census tracts in the AA. The second AA includes the incorporated city of Moreno Valley, where the bank has one branch. The Moreno Valley branch is located in a middle-income geography, and there are no low-income census tracts in the AA. The Moreno Valley AA includes March Air Force base. As of the 1990 census, the two AAs had a combined population of 187,777. The Riverside MSA's 1990 census median family income was \$43,300. The twelve census tracts in the bank's two Riverside AAs are comprised of:

Census Tract Characteristic	Count	Percentage
Low-income	0	0
Moderate-income	2	17%
Middle-income	7	58%
Upper-income	3	25%

The two Riverside AAs' larger employers also comprise a diverse group including service-related, retail, government, manufacturing, and construction industries. Furthermore, a majority of the population commutes long distances from Temecula and Moreno Valley to jobs elsewhere. Banking services are highly competitive with numerous independent

and branch-banking systems represented in the area. Additionally, the bank feels competitive pressures from nonbanks offering financial services, primarily lending.

The bank's three designated AAs do not arbitrarily exclude low- or moderate-income areas, and they are in compliance with the CRA regulation.

As part of this examination, we contacted two community-based organizations in the San Diego MSA. We also reviewed two reports of regulatory agencies' community outreach contacts conducted within the past year in the San Diego and Riverside MSAs. These contacts included community development organizations, neighborhood housing groups, and housing and development organizations. Through these contacts we noted the need for affordable housing loans and credit counseling services for LMI individuals in the San Diego MSA. Per our contacts, many of these individuals also need help establishing and/or reestablishing their credit. In the Riverside MSA we noted the need for residential, auto, and other personal loans. We also noted the need for small business loans, including micro loans and start-up loans, in both MSAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio:

First Pacific's loan-to-deposit ratio (LTD) slightly exceeds that of similarly situated banks. Since the last CRA examination in April 1993, the bank's LTD ratio has averaged 77%. Over the last eight quarters the bank's LTD ratio averaged 78% compared to 74% for other similarly situated banks. For purposes of comparison, we considered four local banks based on asset size.

Lending in Assessment Areas:

The bank makes a majority of its loans to borrowers within its San Diego and Riverside AAs. The bank made 339 loans from January through October 1996. The majority of these loans (224 or 66%) were extended to consumers or businesses within First Pacific's AAs. The following table provides a summary:

Loan Originations	# of Loans Originated	# of Loans Within the Assessment Area	% of Loans Within the Assessment Area
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Consumer Originations	164	103	63%
Commercial Originations	175	121	69%
TOTALS	339	224	66%

The above loan originations include consumer, commercial, SBA, and 1-4 family real estate loans. Furthermore, we included a random sample of 37 consumer and business credit card approvals from the two Riverside AAs. We included a credit card sample because of the small volume of loans originated out of the two Riverside AAs compared to the San Diego AA. Normally credit card approvals are not included in our review.

Lending to Borrowers of Different Incomes and Businesses of Different Sizes:

Borrowers of Different Incomes:

The distribution of consumer loans originated in 1996 by San Diego branches shows the lending activity satisfactorily reached borrowers of various income levels including LMI individuals. However, we noted a disproportionate amount of loans to individuals of middle- and upper-income levels in the San Diego AA. The following table provides a summary:

Income Designation of the Borrower	% of Families in the Assessment Area	# of Loans Sampled	% of Loans Sampled
Low	15.33%	6	10.00%
Moderate	16.37%	4	6.67%
Middle	21.77%	5	8.33%
Upper	46.53%	45	75.00%
Total	100.00%	60	100.00%

Management informed us that they reach LMI individuals primarily through the credit card department. Based on a limited sample of approved credit cards in San Diego (not included in the above table), the percentages more closely approximate the income designation of families in the AA. Management indicated they will track this information going forward.

In addition to the above, the bank supports affordable housing needs through various community groups operating within the San Diego AA. First Pacific granted the following loans since the last CRA examination:

- o \$1.6 million loan to Washington Park Associates, Ltd. for rehabilitation of a 75-unit apartment complex for LMI housing in Escondido, CA. The loan has since paid off.
- o \$63 thousand loan to Escondido Youth Encounter to facilitate the purchase of a halfway house in Escondido, CA, to be used as transitional housing for LMI youths. Escondido Youth Encounter supports individuals undergoing drug and alcohol rehabilitation.
- o \$55 thousand to North County Serenity House, Inc. to facilitate the purchase of a single-family residence. This group provides drug and alcohol rehabilitation to women with limited income in Escondido. The house will be used as a living facility for program participants.
- o \$600 thousand loan to Redwood Elderlink to assist in the completion of an adult day care service facility located in a moderate-income census tract in Escondido, CA. Redwood Elderlink provides care and education to senior citizens.

The distribution of consumer loans made year-to-date in the two Riverside AAs shows the bank’s lending activity effectively reached borrowers of various income levels including LMI individuals. These branches originated 39% of their consumer loans to LMI borrowers residing in the AAs. This compares favorably to the 1990 census report which indicates that 31% of the families within the AAs are identified as LMI. We included a random sample of 23 credit cards in our sample. The following table provides a summary:

Income Designation of the Borrower	% of Families in the Assessment Area	# of Loans Sampled	% of Loans Sampled
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Low	16.66%	10	24.39%
Moderate	14.66%	6	14.63%
Middle	23.96%	9	21.95%
Upper	44.72%	16	39.02%
Total	100.00%	41	100.00%

Businesses of Different Sizes:

The bank exhibits strong performance with respect to lending to small businesses in both the San Diego MSA and the Riverside MSA. A majority of the commercial loans extended in 1996 were to businesses with less than \$1 million in gross revenues. And, the bank has earned the Preferred Lender Program status through the Small Business Administration (SBA).

The following table provides a summary of commercial and SBA loans originated in the San Diego AA January through October 1996:

	# of Loans Reviewed	% of Loans Reviewed
Loans to Small Businesses (Revenues < \$1,000,000)	44	60%
Loans to Large Businesses (Revenues > \$1,000,000)	29	40%
Total Loans Reviewed	73	100%

The following table provides a summary of all commercial and SBA loans originated in the two Riverside AAs January through October 1996, plus a random sample of business credit cards approved in 1996:

	# of Loans Reviewed	% of Loans Reviewed
Loans to Small Businesses (Revenues < \$1,000,000)	21	72%

Loans to Large Businesses (Revenues > \$1,000,000)	8	28%
Total Loans Reviewed	29	100%

Additionally, through community development organizations First Pacific provides nonconventional small business loans in the Temecula AA. This also includes loans to assist the community development organizations by providing operating funds for the organizations. Since the last CRA evaluation, the bank has provided the following nonconventional small business loans. The bank extended a \$3.2 million loan to Camelot Properties to assist in the financing of a movie theater project in an economically depressed area of Lake Elsinore, CA. The project was part of the City's efforts to revitalize the community. The bank also provided a \$10 thousand loan to Temecula Valley Economic Development Corporation for operating funds. The Temecula Valley Economic Development Corporation is established to attract, retain, and counsel the owners of small businesses in the local area. The corporation also facilitates the origination of small business loans.

Geographic Distribution of 1996 Loan Originations:

The dispersion of loans originated in the San Diego AA is good. The percentage of loans made in each income geography is generally proportionate to the percentage of geographies for each income category in the San Diego AA as the following table shows:

Income Characteristic of Census Tract	% of Census Tracts	# of Loans Originated	% of Loans Originated
Low	0	0	0
Moderate	18%	28	19%
Middle	41%	70	49%
Upper	41%	46	32%
Total	100%	144	100%

The dispersion of loans originated in the two Riverside AAs is acceptable. There are no low and only two moderate-income census tracts in the AAs. The moderate income census tracts encompass March Air Force base and the surrounding area. We found that no loans were originated in these moderate income census tracts in 1996. But they are serviced by

a credit union located on base. We further noted that a majority of the loans were originated out of the Temecula branches versus the Moreno Valley branch. Management indicated that Moreno Valley is an economically depressed, but well-banked area. They previously took steps to increase business out of the Moreno Valley branch by hiring a branch manager for business development and sending credit card and deposit mailers to area residents. However, their efforts did not result in increased business, and the branch is now mainly a deposit-taking facility and houses the bank's aircraft lending department. The following table represents the geographic dispersion throughout the Temecula and Moreno Valley AAs:

Income Characteristic of Census Tract	% of Census Tracts	# of Loans Originated	% of Loans Originated
Low	0	0	0
Moderate	17%	0	0
Middle	58%	25	31%
Upper	25%	55	69%
Total	100%	80	100%

We noted that while no loans were made in the moderate-income census tracts, the bank does make loans to LMI individuals in the Temecula and Moreno Valley AAs (refer to Lending to Borrowers of Different Income Levels).

Response to Complaints:

The bank has not received any CRA-related complaints.

Discriminatory Practices:

We found no evidence of any prohibited practices in our review. Our 1996 compliance examination's review of loan application denials and approvals found no evidence of prohibited discriminatory or other illegal credit practices. In addition, we did not detect any practices that would discourage applications for the types of loans offered by the bank.

Investments and Services:

First Pacific invested in two local community organizations within the San Diego AA. First, the bank invested \$55 thousand with the Bankers' Small Business Community Development Corporation. This group targets for-profit small businesses and provides micro loans and equity gap guarantees (e.g., standby letters of credit). The corporation gives priority to minority and women-owned businesses in LMI and minority areas. Next, the bank invested \$10 thousand in Service, Employment and Redevelopment (SER)/Jobs for Progress. SER is a nonprofit organization searching for opportunities to provide affordable housing in LMI neighborhoods and then putting the neighborhood at-risk youths to work in the labor process.

As previously indicated, the bank has located its eight branches accessible to all elements of the community. The fact that two branches were closed since the last CRA examination does not negatively impact the bank's ability to serve its community because First Pacific branches were located in the same vicinity. The bank is open six days per week in many of the offices and offers 24-hour banking services through its onsite ATMs and *FPNB Infoline*. Bilingual employees are available to communicate with non-English speaking members of the local community.

The bank's outreach, marketing efforts and services address the needs of the local small business segment of the community. The bank provides leadership and technical expertise to several community organizations that target the credit needs of small businesses including: California Southern Small Business Development Corporation, Finance Subcommittee of the Business Economic Development Committee, Riverside Certified Development Corporation, Temecula Valley Economic Development Corporation, and Vista Economic Development Association. The bank also works with various groups to determine affordable housing needs. These groups include: City of Escondido/Affordable Housing Committee, National American Indian Housing Council, and SER/Jobs for Progress.

The bank provides alternative banking services to individuals with unmet special needs. Through its involvement in community groups the bank learned of LMI individuals' need for access to and knowledge of banking services. To fulfill these needs the bank provides check cashing for nonbank customers, the sale of money orders, and budget checking accounts. Additionally, a branch manager works with the North County Serenity House, a women's rehabilitation center located in an LMI area, to teach them how to rebuild credit, clean up bad credit, and open or reestablish checking and savings accounts. Bank employees also participated in one-day events with Moreno Valley Chamber of Commerce,

Riverside County GAIN Program, and City of Moreno Valley to discuss small business loan programs and how to establish (or reestablish) credit.