

PUBLIC DISCLOSURE

September 13, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Taft National Bank
Charter Number 17577**

**523 Cascade Place
Taft, California 93268**

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

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.

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 **Taft National Bank**, prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, **as of September 13, 1999**. 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.”**

Taft National Bank demonstrates a commitment to serving the communities in which it operates.

- C A substantial majority of loan originations (88 percent by number and 80 percent by dollars) are within the bank’s assessment area.
- C The bank effectively lends to businesses of different sizes and to borrowers of various income levels.
- C Lending patterns reasonably reflect the bank’s market focus and office locations.
- C The loan-to-deposit ratio adequately reflects the bank’s business strategies, including the early growth patterns of a recently opened branch in Bakersfield.

DESCRIPTION OF INSTITUTION:

Taft National Bank (TNB) opened in January 1983, and is located in the city of Taft, California. In addition to its main office in Taft, TNB operates a full-service branch in Bakersfield, originally opened as a loan production office (LPO) in December 1996. The Bakersfield LPO was converted to a full-service branch in May 1998. The bank maintains proprietary automated teller machines (ATMs) and drive-up windows at both locations. The bank has adequate resources to meet the credit needs of the communities within its assessment area. Total assets as of June 30, 1999, were \$53 million, with total loans of \$27 million, representing 52 percent of total assets.

The bank's primary focus is on commercial lending with over 70 percent of the loan portfolio directed at servicing the financial needs of small businesses in its communities. TNB offers a variety of consumer and commercial loan programs, but in recent years they have specialized in providing construction loans to small residential construction firms, as well as commercial real estate loans for local businesses. Over 26 percent of the loans originated in the past 30 months were short-term construction loans to residential developers. Other commercial loans represented an additional 56 percent of the volume and over 9 percent were consumer loans. Another 8 percent were for commercial real estate purposes. The following chart reflects the major categories of the loan portfolio as of August 31, 1999.

| LOAN PORTFOLIO BY CATEGORY AS OF AUGUST 31, 1999 | | |
|--|----------------------------|--|
| Loan Type | Dollar Volume \$(000's) | Percent of Total Loans by Dollar Volume |
| Commercial/Business | 15,739 | 53 |
| Commercial/Real Estate | 5,575 | 19 |
| Instalment/Consumer | 3,793 | 13 |
| Residential/Real Estate Construction | 3,757 | 13 |
| Residential Mortgage | 683 | 2 |
| Total | 29,547* | 100 |

*Includes allowance for loan and lease losses of \$319,000.

The bank's primary competitors consist of several local independent banks, a large local oil company credit union, and several savings banks. Large California branch banks do not pose as much competition due to TNB's focus on small business lending. TNB expects to expand its presence in Bakersfield, as a result of better growth prospects for that area. The previous CRA rating was "Satisfactory."

DESCRIPTION OF TAFT NATIONAL BANK’S ASSESSMENT AREA:

The bank’s assessment area is located within the western portion of the Kern County Metropolitan Statistical Area (MSA). The assessment area excludes the northern, eastern, and southern portions of Kern County, since these parts of the MSA are well outside an area reasonably served by the bank. The assessment area consists of 41 census tracts that surround the Taft main office and the Bakersfield branch. All census tracts between the two locations are contiguous. The census tracts in the Bakersfield area only include the western portion of the city, surrounding their West Bakersfield branch location.

The only low- and moderate-income census tracts in the assessment area are located in the city of Bakersfield. One is a low-income tract and seven are moderate-income census tracts. The Bakersfield census tracts were added to the assessment area with the opening of the LPO in December 1996. The assessment area also includes 15 middle-income and 18 upper-income census tracts. All of the Taft census tracts are middle-income tracts. The table below details the composition of the entire assessment area by income level.

| ASSESSMENT AREA COMPOSITION BY INCOME LEVEL OF CENSUS TRACTS | | |
|---|-------------------------|------------------------------------|
| Census Tract Type | Number of Tracts | Percent of Tracts by Number |
| Low Income | 1 | 2 |
| Moderate Income | 7 | 17 |
| Middle Income | 15 | 37 |
| Upper Income | 18 | 44 |
| Total | 41 | 100 |

The local economy relies heavily on the oil and agriculture industries. In the early 1980s, the area experienced rapid population growth with migration from Los Angeles County. However, this growth slowed in the late 1980s due to falling real estate values and weak oil prices. Recovery in the Kern County economy has not followed California’s robust economic rebound from 1995 to the present. Also, falling oil prices over the past two years have further slowed economic growth in the markets served by the bank. Only in the last six months have oil prices started to rebound. Local unemployment figures typically experience seasonal variations due to the agriculture industry. Nearly 12 percent of the MSA residents live below the poverty level, with 23 percent of the households receiving social security and 12 percent receiving public assistance. The bright spot in the economy has been in West Bakersfield, where a number of new housing tracts are being developed. TNB’s Bakersfield branch focuses on this market. Government, oil services, retail trade, and agriculture continue to be the areas largest employers.

As a part of this examination, we considered information obtained from several community development groups. They indicated a primary need for small business loans of \$25 thousand or less.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

As a basis for our review, we used loan information provided by the bank. We sampled a number of loans to confirm the accuracy of the information provided. The sample included 25 consumer and 25 commercial/business loans funded within the assessment area. Our conclusions are based on the bank’s lending activity from February 12, 1997, through September 12, 1999. In considering the geographic distribution of loans, we considered the bank’s compilation of all lending in its assessment area for 1997 and 1998. The performance criteria explained below reflect the bank’s commitment to the CRA.

Lending within the Assessment Area

< **The proportion of TNB’s lending within its assessment area meets the standards for satisfactory performance.**

Our findings reflect that a substantial number and dollar amount of loans originated since the last examination were made to borrowers within the assessment area. Please refer to the table below for details.

| LOANS WITHIN THE ASSESSMENT AREA (AA) | | | | |
|---------------------------------------|-----------------------|----------------------------------|--|---|
| | Number of Loans in AA | Percent of Loans in AA by Number | Loans in AA by Dollar Amount \$(000's) | Percent of Loans in AA by Dollar Amount |
| Inside AA | 849 | 88 | 51,500 | 80 |
| Outside AA | 111 | 12 | 12,600 | 20 |
| Total | 960 | 100 | 64,100 | 100 |

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Business Lending

The following table outlines distribution from our sample of 1999 business lending.

| BUSINESS LENDING DISTRIBUTION BY LOAN SIZE WITHIN THE ASSESSMENT AREA | | | | |
|--|---------------------------------|--|--|---|
| Business Loan Originations | Number of Business Loans | Percent of Business Loans by Number | Dollar Volume of Business Loans \$(000's) | Percent of Business Loans by Dollar Volume |
| \$0 - \$100,000 | 14 | 56 | 537 | 20 |
| \$100,001- 250,000 | 8 | 32 | 1,229 | 44 |
| \$250,001-\$1,000,000 | 3 | 12 | 1,000 | 36 |
| Total | 25 | 100 | 2,766 | 100 |

Lending activity shows a reasonable distribution among borrowers of various incomes and businesses of different sizes. As shown in the above table, the bank is doing a good job of lending to small businesses in the community with over 88 percent of business loans (by number) and 64 percent (by dollar) granted in amounts under \$250 thousand. The average commercial loan sampled was \$111 thousand. The largest number of business loans (56 percent) were made in amounts under \$100 thousand. This was determined to be the assessment area's greatest credit need according to our community contacts.

The following table shows the distribution of business lending opportunities and the bank's lending performance in these sectors.

| DISTRIBUTION OF BUSINESSES OF DIFFERENT SIZES WITHIN THE ASSESSMENT AREA | | | | |
|---|------------------------|----------------------------|---|-------------------------------------|
| Business Revenues | Number of Loans | Percentage of Loans | Dollar Amount of Loans \$(000's) | Percentage of Dollar Amounts |
| \$0 to \$100,000 | 0 | 0 | 0 | 0 |
| \$100,001 to \$500,000 | 11 | 44 | 891 | 32 |
| \$500,001 to \$1,000,000 | 6 | 24 | 465 | 17 |
| More than \$1,000,000 | 8 | 32 | 1,411 | 51 |
| Total | 25 | 100 | 2,767 | 100 |

The bank’s business loans are well distributed among businesses of different sizes. Our analysis shows that TNB is doing an effective job of extending loans to small businesses in its assessment area. Based on our sample, the table above shows that small businesses received 68 percent by number and 49 percent by dollar of the loans funded. For the purposes of our review, we classified small businesses as those with revenues of less than \$1 million.

Consumer Lending

The following table shows the distribution of loans based on family incomes.

| DISTRIBUTION OF LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS | | | |
|--|---|-----------------------------------|------------------------------------|
| Income Level of Applicant | Percent of Families in Income Category | Number of Loans Originated | Percent of Loans Originated |
| Low Income | 18 | 4 | 16 |
| Moderate Income | 14 | 8 | 32 |
| Middle Income | 20 | 9 | 46 |
| Upper Income | 48 | 4 | 16 |
| Total | 100 | 25 | 100 |

Consumer lending in the sample correlates very favorably with the area demographics for low-and moderate-income borrowers. The bank extended 48 percent of the number of consumer loans sampled to low- and moderate-income geographies, compared to 32 percent of the low- and moderate-income families living in those geographies. As shown in the above table, the bank is actively lending to families in these income levels. The average consumer loan size in our sample was \$11 thousand and the smallest consumer loan was \$1.4 thousand.

Geographic Distribution of Loans

< **The geographic distribution of loans originated during the evaluation period meets the standards for satisfactory performance.**

The table on the following page shows the distribution of census tracts within the assessment area by income category, the distribution of businesses within the assessment area by census tract income, and the distribution of all originated business loans by census tract income.

| ASSESSMENT AREA (AA) GEOGRAPHIC DISTRIBUTION | | | | | |
|--|------------------|---------------------------|----------------------------|--|-----------------------------------|
| Income Level of Census Tract | Percentage of AA | Loans in Tracts by Number | Percent of Loans by Number | Loans in Tracts by Dollar Amount \$(000's) | Percent of Loans by Dollar Amount |
| Low Income | 2 | 25 | 4 | 3,091 | 9 |
| Moderate Income | 17 | 10 | 1 | 669 | 2 |
| Middle Income | 37 | 422 | 60 | 8,823 | 25 |
| Upper Income | 44 | 243 | 35 | 22,365 | 64 |
| Total | 100 | 700 | 100 | 34,948 | 100 |

Lending performance to low-income geographies was good four percent by number of loans funded and nine percent by dollar in the only low-income tract. TNB's performance falls short only in lending to the moderate-income tracts in its assessment area. The bank extended one percent, by number of loans funded, and two percent by dollar amount in moderate-income geographies.

The bank has one gap in its lending distribution. The bank did not extend any loans to borrowers in three of the moderate-income geographies located in central Bakersfield, and an adjoining community, Oildale. However, the bank is lending in the other four moderate-income tracts and in the only low-income tract. The reason for the limited penetration in moderate-income tracts is that the Bakersfield branch concentrates on residential construction and business commercial lending and does not emphasize consumer loans. Almost all of the residential construction activity is occurring in several upper-income census tracts in west Bakersfield. This accounts for the large number of loans being made in upper-income tracts. Similarly, the large amount of lending in middle-income tracts comes from other commercial loans made in the Taft area, which consists of five middle-income tracts. Also, the Taft branch still generates the largest number of consumer loans. There are no low- or moderate-income tracts in or around the city of Taft.

Loan-to-deposit Ratio

< **TNB's loan-to-deposit ratio meets the standards for satisfactory performance given the bank's size, age, and assessment area credit needs.**

The bank's loan-to-deposit ratio is reasonable. TNB's average ratio for the last 10 quarters (since the last examination) is 56 percent for the period ended June 30, 1999. During the last 10 quarters the high point was 65 percent as of December 31, 1997. By December 31, 1998, the loan-to-deposit ratio fell to its lowest level of 47 percent. The average 10-quarter ratio of 56 percent is lower than the

64 percent average ratio of two other similarly situated Kern County financial institutions; however, there are several mitigating reasons. The bank expanded its assessment area in 1996 when it established the Bakersfield LPO. This office was subsequently converted to a full service branch in May 1998. The lower loan-to-deposit ratios experienced in 1998 were strongly affected by a substantial increase in deposits attributed to the new Bakersfield branch. Total deposits expanded nearly \$14 million (48 percent) in the 12 months ended December 31, 1998, greatly exceeding loan growth. Additionally, management's focus was diverted to the development of the new branch which was expected to be more promising for long-term loan growth. However, by mid-1999, the bank reported a turnaround in the declining trend. By June 30, 1999, the ratio improved to 56 percent. This improvement resulted from a more normal relationship of loans to deposits during the six-month period ended June 30, 1999. As of August 31, 1999, the loan-to-deposit ratio improved further to 60 percent.

RESPONSE TO COMPLAINTS

The bank has received no CRA-related complaints since the last CRA performance evaluation.

FAIR LENDING ANALYSIS

The bank is in compliance with fair lending laws and regulations. Our fair lending review, conducted along with this examination, consisted of a control group of 40 consumer loans to males (20 unsecured and 20 automobile loans). We compared this group to the prohibited basis group loans of five declined female applicants. Our sample involved loans made or applied for between January 1, 1998, and September 1, 1999. We found no evidence of unusual patterns or discriminatory lending practices.