



## **PUBLIC DISCLOSURE**

April 27, 2015

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

Bank of Southern California, National Association  
Charter Number 24100

12265 El Camino Real, Suite 100  
San Diego, CA 92130

Office of the Comptroller of the Currency

1551 North Tustin Avenue  
Suite 1050  
Santa Ana, CA 92705

**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.

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

The major factors that support this rating include:

- The bank's loan-to-deposit ratio is reasonable given the institution's size, financial condition, and business strategy.
- The bank originated a substantial majority of its loans within its delineated assessment areas.
- The geographic distribution of loans reflects reasonable dispersion.
- The bank's distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics.

**Scope of Examination**

This Performance Evaluation (PE) assesses the Community Reinvestment Act (CRA) performance of Bank of Southern California, N.A. using the lending test criteria for small bank examinations. To assess the bank's lending performance, we evaluated a random sample of commercial loans originated or purchased from January 1, 2013, through December 31, 2014 (sample period), as this was most representative of the bank's lending strategy since the last CRA examination. We focused our review on commercial loans because they represented the bank's primary product based on the number and dollar volume of loan originations during the sample period.

**Description of Institution**

Bank of Southern California, N.A. (BSC or bank) is a locally-owned, independent, full-service community bank headquartered in San Diego, California, near the community of Del Mar. The bank opened for business in December 2001 as Ramona National Bank. Management changed the bank's name to First Business Bank in March 2007 after relocating to the north San Diego County area. The bank's name changed again to Bank of Southern California, N.A. (effective June 28, 2010) because another bank held the name of First Business Bank.

The bank currently has eight branches. The main branch opened in January 2008. In September 2008, the bank opened a deposit production office in Carlsbad and converted it to a full-service branch in February 2009. The bank opened the Del Mar and Carlsbad branches to establish a presence in the coastal communities where there are professional business lending opportunities. The branch in Ramona is the original location where the bank opened for business. The bank opened the downtown San Diego branch in July 2010. The Palm Springs and La Quinta branches were acquired through an acquisition from Palm Desert National Bank in December 2010. In January 2014, the bank acquired the Palm Desert branch from AmericanWest Bank and consolidated the Palm Springs branch into the Palm Desert branch. In November 2014,

the bank acquired Frontier Bank, FSB and with it another branch in Palm Desert and a branch in Rancho Mirage. All branches are located in upper-income census tracts except for the Ramona branch, which is located in a moderate-income census tract, and one of the Palm Desert branches, which is located in a middle-income census tract.

BSC offers traditional lending products with an emphasis in commercial real estate (CRE) loans. The bank also participates in the Small Business Administration (SBA) 504 and 7(a) loan programs. Consumer and retail lending activities are limited. The bank offers traditional services. The bank’s four retail branches (Ramona, La Quinta, El Paseo, and Rancho Mirage) have Automated Teller Machines (ATMs), safe deposit boxes, and night drop services. The bank has an off-site ATM located on the premises of San Diego Country Estates in Ramona, CA. All branches are open for business Monday through Friday from 9:00 AM to 5:00 PM. In addition, BSC offers a variety of on-line banking services.

As of December 31, 2014, BSC reported total assets of \$317 million, total loans of \$230 million, total deposits of \$282 million, and total equity capital of \$34 million. Total loans represented approximately 73 percent of total assets. The following chart summarizes the loan portfolio by major product types.

<b>Bank of Southern California, N.A. Outstanding Balances by Major Product Type as of December 31, 2014</b>		
<b>Loan Type</b>	<b>(\$000's)</b>	<b>Percent</b>
Commercial RE	94,116	40.9%
1-4 Family Residential RE	69,076	30.0%
Commercial-Industrial	40,052	17.4%
Multifamily Residential RE	10,843	4.7%
Construction	10,110	4.4%
Farmland	4,266	1.9%
Consumer	1,668	0.7%
Other	45	0.0%
<b>Total</b>	<b>230,176</b>	<b>100.0%</b>

There are no financial or legal factors that impede the bank’s ability to meet the credit needs of the community. BSC received a “Satisfactory” rating under the “Small Bank” rating criteria at the prior CRA examination dated June 14, 2010.

## **DESCRIPTION OF ASSESSMENT AREAS**

### San Diego County

BSC has designated the San Diego-Carlsbad, CA Metropolitan Statistical Area (MSA) as its assessment area (AA). The MSA consists of the entirety of San Diego County. It meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income (LMI) geographies. BSC helps meet community credit needs in the AA through its four branch offices.

The San Diego-Carlsbad MSA is the 17<sup>th</sup> largest MSA in the U.S. with a population of almost 3.1 million and an area of 4,525 square miles based on 2010 U.S. Census data. It is the second largest MSA in California. San Diego County consists of 18 incorporated cities and a number of unincorporated regions. The MSA consists of 628 census tracts. Ten percent of the census tracts are low-income, 21 percent are moderate-income, 36 percent are middle-income, 32 percent are upper-income, and one percent does not have an assigned income classification. San Diego County is the southern-most county in California and borders Orange and Riverside counties to the north, Imperial County to the east, the Pacific Ocean to the west, and Mexico to the south.

The 2010 Census median housing value was \$402,100. Approximately 53.8 percent of all housing units are owner-occupied. The 2010 Federal Financial Institutions Examination Council (FFIEC) MSA median family income is \$73,560. Zillow reports the current median housing value in the AA as \$501,800. This is a 3.3 percent increase over the previous year, and Zillow predicts that values will increase 1.7 percent this year. According to the Employment Development Department of California, the unemployment rate in San Diego County peaked in 2010 at 10.6 percent but declined steadily every year since 2010 and is currently at 5.2 percent. The MSA's main economic drivers include military and defense related activities, biotechnology, tourism, international trade, and manufacturing. Some of the major employers in the region are the United States Marine Corps, United States Navy, University of California San Diego (UCSD), UCSD Medical Center, Kaiser Permanente, Scripps Clinics, Sea World, and Qualcomm.

The FDIC deposit share report as of June 2014 shows that there is great competition amongst the banks in the AA. Wells Fargo Bank, N.A., has a market share of 23.8 percent, MUFG Union Bank, N.A. 18 percent, Bank of America, N.A. 14 percent, and JPMorgan Chase Bank, N.A. 11.7 percent, while BSC only has 0.2 percent of the market share. Forty-seven other banks in the AA compete for the remaining market share of 32 percent.

During our evaluation of BSC, we contacted a community organization that serves the bank's AA. The non-profit organization is an intermediary for affordable housing specifically for persons with disabilities. The organization indicated that the AA needs more affordable housing and support for various workforce development initiatives.

### Riverside County

BSC has designated Riverside County as its AA. The AA meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. The county makes up a portion of the Riverside-San Bernardino-Ontario, CA MSA and includes 453 census tracts. Four percent of the census tracts are low-income, 27 percent are moderate-income, 35 percent are middle-income, 33 percent are upper-income, and one percent does not have an assigned income classification. BSC helps meet community credit needs in the AA through its four branch offices.

Riverside County covers 7,208 square miles in Southern California and is bounded by Orange County to the west, San Bernardino County to the north, San Diego County to the south, and the Arizona border to the east. Geographically, the county is mostly a desert climate in the central and eastern portions of the county and is a Mediterranean climate in the western portion of the county. The resort cities of Palm Springs, Palm Desert, Indian Wells, La Quinta, Rancho Mirage, and Desert Hot Springs are all located in the Coachella Valley region of Riverside County. The 2010 U.S. Census reported the population was 2.2 million, making it the 4<sup>th</sup> most populous county in California and the 11<sup>th</sup> most populous in the United States. The 2010 Census median housing value in the AA was \$326,531, and the 2014 HUD median family income was \$60,700 for the AA. The 2010 Census unemployment rate was 5 percent with approximately 10 percent of the households living below the poverty level. Top employers include the County of Riverside, March Air Reserve Base, Stater Brothers, the University of California, Riverside, and Kaiser Permanente Medical Center.

The June 30, 2014 FDIC Deposit Market Share Report indicates that 32 institutions with 334 offices compete for deposits in Riverside County. The major competing institutions include Wells Fargo Bank, N.A., Bank of America, N.A., and JPMorgan Chase Bank, N.A., who collectively hold 56 percent of the deposit market share. BSC ranks 29<sup>th</sup> and holds a market share of 0.2 percent. The banks that compete for deposits in the AA also compete for loans.

During our evaluation of BSC, we contacted a community organization serving the bank's AA. The non-profit organization promotes fair housing rights and other housing opportunities within the AA. The contact indicated the AA continues to need affordable housing and credit counseling services.

## **Conclusions with Respect to Performance Tests**

BSC's performance under the CRA Lending Test is "Satisfactory." The bank exceeds the standard for satisfactory performance for one test and meets the standard for the remaining three tests.

### **Loan-to-Deposit Ratio**

BSC's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and local economic conditions. We evaluated the bank's quarterly average LTD ratio for the 19 quarters since the prior CRA examination through December 31, 2014. During this period, the bank's LTD ratio averaged 93 percent. This ratio ranged from a quarterly low of 81 percent to a quarterly high of 100 percent during the period. The bank's LTD ratio reasonably compares with five other banks of similar asset size in the AAs. The average LTD ratio for peer banks was 92 percent over the same period, and the ratio ranged from a quarterly low of 66 percent to a quarterly high of 106 percent.

## Lending in Assessment Area

BSC granted a substantial majority of the number and dollar volume of loans inside its delineated AA and exceeded the standard for satisfactory performance. The bank granted 90 percent of both the number and dollar volume of loans within its delineated AAs during our evaluation period. See Table 1 for details.

<b>Table 1 - Lending in Defined Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	18	90.0	2	10.0	20	10,639	89.7	1,220	10.3	11,859

Source: OCC commercial loan sample.

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

The distribution of commercial loans overall reflects reasonable penetration, when considering performance context, and meets the standard for satisfactory performance.

### *Performance in the San Diego County AA*

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics. We placed greater weight on the number of loans for this analysis. The number of sampled loans reasonably compares to small business demographics in the AA. While these percentages are somewhat below the area demographics, lending to small businesses within the AA is highly competitive and BSC competes with a number of large national financial institutions as well as regional and local lenders. In addition, this performance reflects an improvement from the June 2010 examination when only 40 percent of loans were originated within the AA. Twenty-five percent of the bank's commercial loans were for \$100,000 or less, indicating responsiveness to the needs of the businesses in the area. See Table 2A for details.

<b>Table 2A - Borrower Distribution of Loans to Businesses in San Diego County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	72.65	4.27	23.08	100%
% of Bank Loans in AA by #	50.0	50.0	0.0	100%
% of Bank Loans in AA by \$	36.0	64.0	0.0	100%

Source: Dunn & Bradstreet Data. OCC random sample of 20 commercial loans.

### *Performance in the Riverside County AA*

The bank's distribution of loans to businesses of different sizes in the Riverside County AA reflects reasonable penetration compared to area demographics and meets the standard for satisfactory performance. See Table 2B for details.

<b>Table 2B - Borrower Distribution of Loans to Businesses in Riverside County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	74.32	3.38	22.30	100%
% of Bank Loans in AA by #	70.0	30.0	0.0	100%
% of Bank Loans in AA by \$	74.0	26.0	0.0	100%

Source: Dunn & Bradstreet Data. OCC random sample of 20 commercial loans.

### Geographic Distribution of Loans

The geographic distribution of commercial loans overall reflects reasonable dispersion throughout the AAs compared to area demographics and meets the standard for satisfactory performance.

#### Performance in the San Diego County AA

The geographic distribution of commercial loans reflects reasonable dispersion in the San Diego County AA. BSC’s lending to businesses in low-income census tracts exceeds the demographic data for the AA. Lending to businesses in moderate-income tracts meets the demographic data for the AA. See Table 3A for details.

<b>Table 3A - Geographic Distribution of Loans to Businesses in San Diego County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Commercial Loans	5.8	10.0	15.4	15.0	35.4	35.0	43.4	40.0

Source: Business Geodemographic Data. OCC random sample of 20 commercial loans. (Note: 0.12 percent of geographies have not been assigned an income classification.)

#### Performance in the Riverside County AA

The geographic distribution of commercial loans reflects reasonable dispersion in the Riverside County AA. BSC’s lending to businesses in low-income census tracts exceeds the demographic data for the AA. The bank’s lending to businesses in moderate-income tracts meets the demographic data for the AA. See Table 3B for details.

<b>Table 3B - Geographic Distribution of Loans to Businesses in Riverside County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans						
Commercial Loans	2.8	10.0	23.3	20.0	33.2	55.0	40.7	15.0

Source: Business Geodemographic Data. OCC random sample of 20 commercial loans.

### **Responses to Complaints**

The bank has not received any complaints about its performance under the Community Reinvestment Act during the evaluation period.

### **Fair Lending or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. 25.28(c), or 12 C.F.R. 195.28(c), in determining a national bank's (bank) or federal savings association's (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any assessment area by an affiliate whose loans have been considered as part of the bank's or FSA's lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.