



## **PUBLIC DISCLOSURE**

January 27, 2020

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

California First National Bank  
Charter Number: 23925

4 Executive Circle  
Suite 120  
Irvine, CA 92614

Office of the Comptroller of the Currency

1551 North Tustin Avenue  
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.

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## **Overall CRA Rating**

**Institution's CRA Rating:** This institution is rated **Satisfactory**.

The major factors that support this rating include:

- The institution demonstrates an adequate level of qualified investment activity, Community Development (CD) leases not routinely provided by private investors, and CD services.
- The institution demonstrates occasional use of innovative qualified CD leases.
- The institution exhibits adequate responsiveness to credit and community economic development needs in its assessment area (AA).

## Description of Institution

California First National Bank (“CFNB” or “the bank”) is a wholesale bank that is headquartered in Irvine, California. The “wholesale” designation limits the bank’s ability to originate home mortgages, small farm loans, or consumer loans to retail customers. The bank and its affiliate, California First Leasing are wholly-owned subsidiaries of California First National Bancorp. California First National Bancorp is a publicly traded company headquartered in Irvine with \$288 million reported total assets. The holding company operates one bank and one leasing company. CFNB operates from one office located at 4 Executive Circle in Irvine, California. CFNB is an internet-based institution and seeks deposit and credit opportunities nationwide. The bank has no other branches or operations, no walk-in facilities and does not own or administer any ATMs. There were no merger or acquisition activities that affected the scope of the bank’s operations during the evaluation period.

The bank’s customers include major corporations, middle-market companies, subsidiaries and divisions of Fortune 1000 companies, private and state regulated educational institutions, not-for-profit organizations and institutions, and municipalities and government enterprises throughout the United States. The bank provides lease financing. Leases under \$1 million are considered small business leases under the Office of the Comptroller of the Currency (OCC) approved CRA plan for the bank as long as it meets the size and purpose of community development.

During the third quarter of fiscal 2017, CFNB was advised by the OCC to cease originating new leveraged or non-leveraged syndicated commercial loans and to act to substantially reduce its concentration of leveraged loans. The restrictions on the bank’s loan activities resulted in no loan originations since January 2017. Since 2018, CFNB has substantially eliminated all syndicated loans which has dramatically impacted its asset size. With the reduction in asset size, the bank’s volume of direct lending within its AA declined. This change reduced the bank’s ability to meet community development activities during the evaluation period. We considered this when reaching our conclusions concerning the bank’s CRA performance because the asset shrinkage occurred towards the beginning of the evaluation period.

As of December 31, 2019, the bank reported total assets of \$138.6 million, consisting mainly of \$67.6 million in lease financing receivables and \$5.6 million in commercial loans. Total assets of \$138 million decreased a significant 83.6 percent since year-end 2016. Deposits decreased 90.4 percent to \$64.5 million, and tier 1 capital decreased by 42.5 percent to \$70.1 million. Additional financial information is provided in Table 1:

**Table 1: Financial Information (000s)**

	<b>Year-end 2016</b>	<b>Year-end 2017</b>	<b>Year-end 2018</b>	<b>Year-end 2019</b>	<b>Average for Evaluation Period</b>
Tier 1 Capital	122,092	110,986	113,028	70,171	104,069
Total Income	36,161	28,602	18,579	11,697	23,760
Net Operating Income	10,113	10,868	8,525	5,142	8,662
Total Assets	845,736	477,890	272,063	138,610	433,575

Source: Consolidated Report of Condition and Income and bank reported data. Annualized data reported.

The major credit needs in the AA are small business lending and investments. CFNB operates in a highly competitive banking market. Large financial institutions have an established presence in the AA and provide strong competition for CD activities.

The bank was rated satisfactory at the last Community Reinvestment Act (CRA) examination on December 5, 2016. Aside from restrictions imposed by CFNB's wholesale designation, scope of operations, and change in business strategy, there are no additional legal, financial, or other constraints that would impede the bank's ability to help meet the credit needs in its AA.

## **Scope of the Examination**

### **Evaluation Period/Products Evaluated**

In evaluating the bank's performance under the CRA, we reviewed CD activities from December 6, 2016 through December 31, 2019. We reviewed the level and nature of CD leases, qualified investments/donations, and CD services presented by CFNB.

For purposes of this evaluation, bank delineated AAs located within the same metropolitan statistical area, multistate metropolitan statistical area (MMSA), or combined statistical area (CSA) are combined and evaluated as a single AA. Similarly, bank delineated non-MSA AAs within the same state are combined and evaluated as a single area.

The evaluation rates the overall CRA performance of CFNB based on the performance in the State of California. The ratios of financial measures contained in this public evaluation were determined by allocating bank capital, income, and assets to the states and subsequent AAs, where feasible and reasonable. The allocation is based on the amount of banking deposits contained in the state and AA. According to the June 30, 2019 Federal Deposit Insurance Corporation (FDIC) Summary of Deposits, bank deposits total \$92.7 million.

The bank has adequately addressed the needs of its AA, and therefore, outside of AA qualified investments and CD leases were considered in evaluating its performance.

## **Discriminatory or Other Illegal Credit Practices Review**

Pursuant to 12 C.F.R. §25.28(c) or §195.28(c), respectively, in determining a national bank's or federal savings association's (collectively, bank) CRA rating, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank, or in any assessment area by an affiliate whose loans have been considered as part of the bank's lending performance. As part of this evaluation process, the OCC consults with other federal agencies with responsibility for compliance with the relevant laws and regulations, including the U.S. Department of Justice, the U.S. Department of Housing and Urban Development, and the Bureau of Consumer Financial Protection, as applicable.

The OCC has not identified that this institution has engaged in discriminatory or other illegal credit practices that require consideration in this evaluation.

The OCC will consider any information that this institution engaged in discriminatory or other illegal credit practices, identified by or provided to the OCC before the end of the institution's next performance evaluation in that subsequent evaluation, even if the information concerns activities that occurred during the evaluation period addressed in this performance evaluation.

## State Rating

### State of California

CRA Rating for California: **Satisfactory**

The major factors that support this rating include:

- The institution demonstrates an adequate level of qualified investment activity, CD leases not routinely provided by private investors, and CD services in the State of California.
- The institution occasionally demonstrates use of innovative qualified CD leases in the State of California.
- The institution exhibits adequate responsiveness to credit and CD needs in the State of California.

### Description of Assessment Area(s)

CFNB has designated the Los Angeles-Long Beach-Anaheim Metropolitan Statistical Area (MSA) as its AA. Within the MSA there are two metropolitan districts (MD): the Anaheim-Santa Ana-Irvine MD (Orange County) and the Los Angeles-Long Beach-Glendale MD (Los Angeles County). The AA meets regulatory requirements, includes whole census tracts, and does not arbitrarily exclude low- or moderate-income geographies.

The AA is situated in a highly competitive urban financial services market with competition from national, regional and local financial institutions. The June 30, 2019, FDIC Deposit Market Share Report notes that CFNB with one office in the AA has a deposit market share of 0.02 percent and ranks 92<sup>nd</sup> among 119 institutions in the market. Comparatively, Bank of America with 326 offices, Wells Fargo with 342 offices, and JP Morgan Chase Bank with 389 offices account for 18.2 percent, 13.73 percent and 12.61 percent of the deposit market share in the AA, respectively.

Demographic data for the Los Angeles-Long Beach-Anaheim MSA is described in Table 2:

**Table 2: Los Angeles Long Beach Anaheim AA Description**

	Number	Low	Moderate	Middle	Upper	N/A
<b>Tracts</b>	2,929	9.08%	28.03%	25.95%	35.10%	1.84%
<b>Families</b>	13,154,457	8.58%*	28.93%*	26.90%*	35.00%*	0.59%
<b>Businesses</b>	1,209,518	4.78%**	18.88%**	24.91%**	49.55%**	1.88%

Source: Demographic Data – 2015 ACS, Dun & Bradstreet Data. \*Represents families by income level. \*\*Represents businesses by income level of census tract.

A community contact from the AA indicated the need for affordable housing, financial literacy programs, and after-school youth programs. According to the contact, the overall economy in both Orange County and Los Angeles have strengthened. Due to the heated economy, construction and land costs have increased, which has increased homelessness in the area as well as made affordable housing developments costlier to build. In addition, increased income

inequality has negatively impacted affordable housing making affordable rental properties difficult to find. Opportunities for local financial institutions include affordable housing, economic development activities and counseling services, and other programs specifically for first time homebuyers.

***Los Angeles County (LAC) (Los Angeles-Long Beach-Glendale MD)***

Based on the January 2020 State of California Employment Development Department (EDD), employment growth in LAC is stable. University of California-Los Angeles, Kaiser Permanente, and the University of Southern California are the largest employers in the Los Angeles-Long Beach-Glendale MD. According to the EDD report, the seasonally adjusted unemployment rate in LAC is 4.4 percent in December 2019 and was below the rate of 4.7 percent from one year ago. The California seasonally adjusted unemployment rate was 3.9 percent in December 2019 and 4.1 percent a year ago in December 2018. The comparable estimates for the nation were 3.5 percent in December 2019 and 3.9 percent a year ago. The estimated population is 10.04 million based on the 2015 American Community Survey (ACS) census. Approximately 546,592 or 16.75 percent of the households are living below the poverty level.

Moody's Analytics reports housing prices are rising, but this is not resulting in increased home building as evidenced by the modest increase in building permits; home sales are declining because of the increased prices. Land shortages also contributed to elevated real estate prices. Based on the Census' 5-year (2013-2017) ACS statistics, the estimated affordability ratio for LAC is 8.1 compared to the State of California at 6.6 and the U.S. at 3.4. The affordability ratio measures homeownership opportunity by dividing the median value of owner-occupied housing by the median household income of the area. Home ownership levels in Los Angeles County are 46 percent compared to 55 percent for the State of California and 64 percent for the U.S. based on ACS data.

Per 2015 ACS Census Data, the median owner-occupied housing value was \$495,540. Approximately 43 percent of all housing units are owner-occupied. The average median family income was \$72,226. Median rent levels suggest rental housing is not affordable for LMI residents in the AA.

***Orange County (Anaheim-Santa Ana-Irvine MD)***

Based on the January 2020 State of California EDD, employment growth in Orange County is stable. The largest employers in the Anaheim-Santa Ana-Irvine area are the Disneyland Resort, The Walt Disney Company, and the University of California-Irvine. According to the EDD report, the unemployment rate in Orange County was 2.4 percent in December 2019 and below the year-ago estimate of 2.7 percent. This compares with an unemployment rate of 3.7 percent for California and 3.4 percent for the nation during the same period. The estimated population is 3.1 million based on the 2015 ACS census data. Approximately 112,106 or 11.1 percent of the households are living below the poverty level.

Moody's Analytics reports single-family housing is overvalued in the Anaheim-Santa Ana-Irvine area. Permits for single- and multi-family housing have been on the decline. The Census'



5-year (2013-2017) ACS statistics estimated an affordability ratio for Orange County at 7.6 compared to the State of California at 6.6 and the U.S. at 3.4. Home ownership levels in Orange County are 57 percent compared to 55 percent for the State of California and 64 percent for the U.S. based on ACS data.

Per the 2015 ACS Census Data, the median owner-occupied housing value was \$581,139. Approximately 55 percent of all housing units are owner-occupied. The average median family income was \$82,108. Median rent levels suggest rental housing is not affordable for low-income residents in the AA.

## **Conclusions About Performance**

### **Summary**

CFNB demonstrates an adequate level of CD performance through CD leases, CD services, and qualified investments in its AA. During the evaluation period, CFNB originated approximately \$7.5 million in qualified CD leases and \$214.3 thousand in qualified investments and donations. The bank also contributed 126 hours of IT technical labor used to prepare the donated computers for use by two organizations and one school that serve LMI individuals. These activities demonstrate adequate responsiveness to credit and community development needs of its AA. We took into consideration the bank's capacity, its narrow business strategy and related restrictions under its regulatory charter, staffing number, and the available opportunities given those factors.

- The institution demonstrates an adequate level of qualified investment activity, CD leases not routinely provided by private investors, and CD services. The majority of CD activities were CD leases that supported qualified community development services, including health care and youth development, and created jobs in LMI geographies.
- The bank demonstrates occasional use of innovative CD leases.
- The bank demonstrates adequate responsiveness to credit and CD needs in the AA.

### **Qualified Investments**

CFNB's level of qualified investments and donations is adequate. Current investments consist of qualified donations totaling \$114.2 thousand to 10 contributions which provide community services to low- and moderate-income individuals. The bank also maintains a \$105.1 thousand mortgage-backed security outstanding from the previous evaluation period that funded mortgages to moderate-income families within the AA.

The donations were primarily to organizations that support low- and moderate-income youth both inside and outside the AA. Some of these charitable contributions to organizations inside the bank's AA include:

- CFNB made four contributions totaling \$12.5 thousand to an organization that supports LMI students from middle school through college graduation by providing academic

enrichment opportunities and support. The participants are the first in their families to attend and graduate from college.

- CFNB made three contributions totaling \$27.5 thousand to an organization that supports arts education and access to theater productions to LMI schools in Orange County.

The bank's donations included in-kind donations of computer equipment, office furniture, and office supplies made to two nonprofit organizations and one elementary school supporting low- and moderate-income youth inside the AA. The total estimated market value of the goods donated to the three organizations was approximately \$24 thousand.

**Table 3a: Qualified Investment Activity (000s)**

	<b>Benefits AA *</b>	<b>Outside AA</b>	<b>Totals</b>
<b>Originated Investments</b>	\$0	\$0	\$0
<b>Originated Grants</b>	\$109.2	\$5.0	\$114.2
<b>Prior-Period Investments that Remain Outstanding</b>	\$105.1	\$0	\$105.1
<b>Total Qualified Investments</b>	\$214.3	\$5.0	\$219.3

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.

**Table 4a: Qualified Investment Percentages**

	<b>Benefits AA (%) *</b>	<b>Outside AA (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	0.21	0.01
<b>Total Investments/Average Total Income</b>	0.90	0.02

\* Investments included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.

## CD Lending

CFNB demonstrates an adequate level of CD lending within the AA. During the evaluation period the bank originated six qualified leases inside the AA for a total of \$2.5 million. The leases supported qualified community development services and created jobs in LMI geographies. The bank has adequately addressed the needs of its assessment area, and therefore, outside of assessment area CD lending activities were considered in evaluating performance. CFNB also originated 16 qualified leases outside the State of California for a total of \$5 million. This included one lease totaling \$484 thousand to a not-for-profit health and teaching hospital system with two locations in LMI geographies that that provide health services to LMI communities.

The institution demonstrates use of innovative or complex qualified CD leases. The bank's use of lease lending to meet its CRA obligations is innovative. Credit terms are flexible, tailored specifically to the individual needs of the client, and some terms exceed 5 years.

**Table 5a: CD Lending Percentages**

	<b>Benefits AA (%) *</b>	<b>Outside AA (%)</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	0.24	0.48
<b>Total CD Lending/Average Total Income</b>	1.06	2.11

*\* CD loans included in the Benefits AA column are located in the AA or in the broader statewide or regional area that includes the AA.*

**CD Services**

CFNB demonstrated an adequate level of CD services to the AA during the evaluation period. In conjunction with donations of computers, the bank’s Management Information Group employees provided 126 hours of service to prepare donated computers for use by four schools by cleaning, reformatting the computers, loading software, and providing face to face guidance on how to use them as needed. Three schools benefit low-income students where they will be the first in their families to attend college, most of whom do not have computers to use at home. One school provides academic one-on-one mentoring focused on at-risk and low-income youth to foster skills for life after high school.

# Appendix A: Summary of MMSA and State Ratings

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RATINGS	California First National Bank
Overall Bank:	Overall Bank Rating
State of California	Satisfactory

## Appendix B: Definitions and Common Abbreviations

The following terms and abbreviations may be used in this performance evaluation, including the CRA tables. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if the same company directly or indirectly controls both companies. For example, a bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Aggregate Lending (Aggt.):** The number of loans originated and purchased by all reporting lenders (HMDA or CRA) in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

**Census Tract (CT):** A small, relatively permanent statistical subdivision of a county delineated by a local committee of census data users for the purpose of presenting data. Census tracts nest within counties, and their boundaries normally follow visible features, but may follow legal geography boundaries and other non-visible features in some instances, Census tracts ideally contain about 4,000 people and 1,600 housing units.

**Combined Statistical Area (CSA):** A geographic entity consisting of two or more adjacent Core Based Statistical Areas with employment interchange measures of at least 15. An employment interchange measure is a measure of ties between two adjacent entities. The employment interchange measure is the sum of the percentage of workers living in the smaller entity who work in the larger entity and the percentage of employment in the smaller entity that is accounted for by workers who reside in the larger entity.

**Community Development (CD):** Affordable housing (including multifamily rental housing) for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet Small Business Administration Development Company or Small Business Investment Company programs size eligibility standards or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies, distressed or underserved nonmetropolitan middle-income geographies, or designated disaster areas.

**Community Reinvestment Act (CRA):** the statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its entire community, including LMI areas, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Consumer Loan(s):** A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, other secured consumer loans, and other unsecured consumer loans.

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into ‘male householder’ (a family with a male householder and no wife present) or ‘female householder’ (a family with a female householder and no husband present).

**Full-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., innovativeness, complexity, and responsiveness).

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Home Mortgage Disclosure Act (HMDA):** The statute that requires certain mortgage lenders that conduct business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applicants, the amount of loan requested, the disposition of the application (e.g., approved, denied, and withdrawn), the lien status of the collateral, any requests for preapproval, and loans for manufactured housing.

**Home Mortgage Loans:** A closed-end mortgage loan or an open-end line of credit as these terms are defined under §1003.2 of this title, and that is not an excluded transaction under §1003.3(c)(1) through (10) and (13) of this title.

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Limited-Scope Review:** Performance under the Lending, Investment, and Service Tests is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, total number and dollar amount of investments, and branch distribution).

**Low-Income Individual:** Individual income that is less than 50 percent of the area median income.

**Low Income Geography:** A census tract with a median family income that is less than 50 percent.

**Market Share:** The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

**Median Family Income (MFI):** The median income determined by the U.S. Census Bureau every five years and used to determine the income level category of geographies. The median is the point at which half of the families have income above, and half below, a range of incomes. Also, the median income determined by the Federal Financial Institutions Examination Council (FFIEC) annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above, and half below, a range of incomes.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Core Based Statistical Area that contains an urbanized population of at least 2.5 million. A Metropolitan Division consists of one or more main/secondary counties that represent an employment center or centers, plus adjacent counties associated with the main/secondary county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as a core based statistical area associated with at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county or counties as measured through commuting.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

**Multifamily:** Refers to a residential structure that contains five or more units.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

**Qualified Investment:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD.

**Rating Area:** A rated area is a state or multi-state metropolitan statistical area. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multi-state metropolitan statistical area, the institution will receive a rating for the multi-state metropolitan statistical area.

**Small Loan(s) to Business(es):** A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) instructions. These loans have

original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans.

**Small Loan(s) to Farm(s):** A loan included in ‘loans to small farms’ as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

**Tier 1 Capital:** The total of common shareholders’ equity, perpetual preferred shareholders’ equity with non-cumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries.

**Upper-Income:** Individual income that is at least 120 percent of the area median income, or a median family income that is at least 120 percent, in the case of a geography.