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

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## **PUBLIC DISCLOSURE**

**December 5, 1997**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**First National Bank  
Charter Number 17129**

**401 West "A" Street  
San Diego, CA 92101**

**Comptroller of the Currency  
Southern California South Field Office  
1925 Palomar Oaks Way, Suite 202  
Carlsbad, CA 92008**

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| <p><b>NOTE:</b> 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.</p> |
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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 National Bank** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of December 5, 1997. 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.**”

- ▶ The bank's loan-to-deposit ratio trend is satisfactory. Its average ratio is slightly lower than similarly situated banks, but this is the result of various factors related to the merger and the bank's financial recovery.
- ▶ The bank makes a high percentage of loans within its assessment area. Since the last CRA examination, the bank originated 83% of its loans within this area.
- ▶ The bank meets the standard for satisfactory performance with respect to its lending performance given its financial condition during the assessment period. The bank made a reasonable percentage of its loans to small businesses, including a significant number of community development loans. Loans are reasonably disbursed among the various geographies (census tracts). An analysis of consumer loan originations was not meaningful because the bank is primarily a business lender.

## **DESCRIPTION OF INSTITUTION:**

First National Bank (FNB) is a \$363 million community bank that operates five full-service branches in San Diego county. Branches are located in La Jolla, Golden Triangle area, Point Loma, and downtown San Diego. All bank offices offer 24-hour banking services through onsite Automatic Teller Machines (ATMs). ATMs provide access to funds through the *STAR*, *Cirrus*, and *Explore* networks. An additional ATM is located in The Paladion shopping center in downtown San Diego. All ATMs have the ability to accept deposits, with the exception of the ATM located outside the bank's downtown main office.

FNB merged with the Bank of Southern California (BSC) in October 1996. The merger resulted in one branch closure in an upper-income census tract because of branch duplication. Prior to the merger, FNB and BSC reported \$148 million and \$157 million in total assets, respectively. FNB also purchased two branches (deposits only) from another bank in October 1997. The branches are located in the bank's current assessment area (AA) in the moderate-income communities of Chula Vista and San Ysidro. The bank plans to operate them as full-service branches. The bank is privately-owned and does not have a holding company or any affiliates.

The bank's lending strategy focuses primarily on commercial, commercial real estate, international, and Small Business Administration (SBA) lending. The majority of the bank's lending is to businesses within its AA. The bank offers a variety of business loan products, including those for working capital, equipment financing, commercial real estate, and construction. FNB also provides consumer loans as an accommodation to the owners and employees of its business customers. The bank does not actively market consumer loans. The bank's lending trends, since the last CRA exam in June 1994, reflect its business focus. Commercial, commercial real estate, and SBA loans represent about 90% of loans made during this period. The bank was rated "Satisfactory Record of Meeting Community Credit Needs" by the OCC at the last CRA evaluation in June 1994. BSC also received a satisfactory rating at its last CRA examination in September 1995.

FNB offers a wide variety of credit products consistent with its current and past financial condition, size, and recent business strategy. However, the bank has been limited with respect to its ability to lend and market credit products because of its financial condition over the last several years. The merged institution became profitable in the first quarter of 1997. Prior to the merger in October 1996, both banks were attempting to recover from significant financial troubles that were mostly a result of asset quality problems. Both banks had been placed under various regulatory orders and agreements to improve their condition. BSC was attempting to become consistently profitable after losses sustained in

1994 and minimal earnings in 1995 and 1996. FNB suffered losses totaling \$5 million from 1994 through 1996.

**DESCRIPTION OF THE BANK’S ASSESSMENT AREA (AA):**

The AA includes the majority of the San Diego County Metropolitan Statistical Area (MSA). The area does not arbitrarily exclude low- or moderate-income geographies (census tracts) and meets the requirements of the CRA regulation. The bank’s five offices are located within this area.

The Chula Vista and San Ysidro branches that the bank acquired in October 1997 are also located in the bank’s AA. These branches are located in moderate-income census tracts. As part of its strategic plan, the bank plans to increase its presence in North San Diego County, East San Diego County and the South Bay area, including eastward along the U.S. / Mexico border. Some of these geographies are already included in the AA.

Existing branches are located in upper-income census tracts, except the Golden Triangle and Fifth Avenue branches, which are located in middle-income and moderate-income geographies, respectively. The Point Loma and La Jolla branches are more consumer oriented. Based on the 1990 census, the bank’s AA has a population of 1.8 million persons and a median family income of \$39,798. The Barrio Logan Enterprise Zone and the San Ysidro / Otay Mesa Enterprise zone are located within the AA. The table that follows categorizes the 342 census tracts in the bank’s AA.

| Census Tract Characteristic | Count | Percentage |
|-----------------------------|-------|------------|
| Low-income                  | 25    | 7%         |
| Moderate-income             | 74    | 22%        |
| Middle-income               | 137   | 40%        |
| Upper-income                | 93    | 27%        |
| N/A - Not Defined           | 13    | 4%         |

The local economy is based on tourism, retail trade, real estate development, military, defense contractors, manufacturing, government, and service industries. There are six airports in the San Diego area, including one major airport. The military has a substantial impact on the economy with six Navy and Marine Corps bases located within the MSA. The regional economy, like all of Southern California, continues to recover from the effects of the economic recession that began in 1990. As a result of the recession, the area suffered a rapid and significant decline in residential and commercial real estate values. San Diego's economy has recovered in most sectors and should continue to expand during 1998. The Gross Regional Product is projected to increase by 7.3% in 1997 to \$85 billion.

The local banking environment has changed significantly over the last ten years. Numerous institutions failed, were purchased by, or merged with other institutions. Several independent community banks remain in the area, but most are relatively small. Competition is strong from branches of large multinational/regional banks and non-bank brokerage houses. In general, credit unions, credit card companies, and savings and loans specializing in consumer lending are more competitive on consumer products.

Based upon six local community contacts made from April 1996 to June 1997 by various regulatory agencies, the following credit needs were noted: (1) small business loans for amounts less than \$20M, especially to women- and minority-owned businesses, (2) small business loans to minority-owned businesses in Barrio Logan and the Southeast San Diego Enterprise Zone, (3) consumer loans for affordable housing, (4) small business loans up to \$125M for the purpose of financing inventory and receivables, and (5) business expansion or start-up loans to retail and home-based businesses.

#### **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

We used information provided by the bank to determine loan-to-deposit ratios. We used bank-supplied loan origination data from July 1994 to September 1997 to determine the bank's lending performance. We used a sampling process to verify the accuracy of this data.

#### **Loan-to-Deposit (LTD) Ratio:**

FNB's loan-to-deposit ratio trend is satisfactory, but the average ratio is slightly lower than similarly situated banks. The bank's LTD ratio has averaged 62% over the last eight quarters compared to 70% for similarly situated banks. We considered the following banks to be "similarly situated" to FNB: North County Bank, Peninsula Bank, First Pacific

National Bank, Valle de Oro Bank and Scripps Bank. These banks have total assets between \$150 million and \$400 million, have the same business emphasis, and are headquartered in FNB's AA.

Various factors have impacted FNB's ability to raise its LTD ratio. The bank's average ratio was negatively impacted by the merger of BSC and FNB in October 1996. BSC had a low volume of loans to deposits at the date of the merger. Other factors have impacted FNB's ability to generate new loans since the merger. First, management concentrated on restructuring the combined bank and collecting existing problem loans, instead of making new loans. In addition, the bank experienced high turnover in the lending department. This caused a lack of business development needed to generate new loans and offset loan payoffs. Also during this period, the regional banking environment remained highly competitive and the bank experienced little loan demand.

### **Lending in Assessment Area:**

The bank makes a high percentage of loans within its AA. The bank originated 83% of its total loans (by number) since July 1994 to consumers and businesses within the AA. The following table provides a summary:

| Loan Type         | # in AA | % by #     | \$ in AA<br>(000) | % by \$    |
|-------------------|---------|------------|-------------------|------------|
| Consumer          | 128     | 89%        | 5,495             | 89%        |
| Commercial        | 190     | 81%        | 56,113            | 73%        |
| SBA               | 37      | 90%        | 10,680            | 94%        |
| Real Estate       | 74      | 75%        | 71,125            | 73%        |
| Charged Off Loans | 30      | 86%        | 4,145             | 90%        |
| <b>Total</b>      | 459     | <b>83%</b> | 147,558           | <b>75%</b> |

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

The bank meets the standard for satisfactory performance with respect to lending to businesses of different sizes. An analysis of consumer loan originations was not meaningful because the bank is primarily a business lender. The bank originated only 34 consumer loans, including overdraft lines, in its AA since the merger in October 1996.

**Businesses of Different Sizes:**

The bank exhibit satisfactory performance with respect to lending to small businesses. Since July 1994, 43% of commercial and SBA loan originations were to small businesses (gross annual revenues less than or equal to \$1 million.) The following table provides a summary:

| Annual Revenue of Business                                 | # Loans | % by # |
|--|---------|--------|
| Loans to Small Businesses<br>(Revenues < or = \$1 million) | 98      | 43%    |
| Loans to Large Businesses<br>(Revenues > \$1 million)      | 129     | 57%    |
| Total Loans  | 227     | 100%   |

**Community Development Loans:**

Included in the lending activity discussed above are community development loans the bank originated during the assessment period. The following loans are to fund, purchase, refinance or rehabilitate multi-family affordable housing projects. These projects primarily benefit the low- and moderate-income population in the assessment area:

- ▶ A low interest loan for \$100,000 to Local Initiative Support Corporation. These funds are used for low- and moderate-income affordable housing projects.
- ▶ A \$550,000 term loan to rehabilitate a 28-unit apartment complex located in a low-income area.

- ▶ A \$351,918 loan to refinance and rehabilitate a mixed-use (apartment/retail) building located in the predominately moderate-income Gaslamp Redevelopment Area.
- ▶ A \$258,121 loan to refinance a mixed-use (apartment/retail) building located in a moderate-income are of National City.

The bank also participates in another community development program in response to identified credit needs within its AA. Loans originated through the following program are not reflected elsewhere in this evaluation.

- ▶ The bank makes funds available through the Bankers Small Business Community Development Corporation. This local organization provides loans to small businesses, particularly those located in low- and moderate-income areas and designated Enterprise Zones. The bank currently has \$48,255 in this loan pool.

**Geographic Distribution of Loan Originations:**

Loans are reasonably disbursed among the various geographies (census tracts) within the AA, given the bank’s volume of lending during the assessment period. The bank originated 19% of its loans in low- and moderate-income census tracts. The bank made 85 loans in low- and moderate-income census tracts for a total of \$27.5 million. The following table provides a summary:

| Income Characteristic of Census Tract | % of Census Tracts | # of Loans | % by # | \$ Loans (000) | % by \$ |
|---------------------------------------|--------------------|------------|--------|----------------|---------|
| Low                                   | 7%                 | 26         | 6%     | 10,234         | 7%      |
| Moderate                              | 22%                | 59         | 13%    | 17,301         | 12%     |
| Middle                                | 40%                | 117        | 25%    | 48,377         | 33%     |
| Upper                                 | 27%                | 256        | 56%    | 71,582         | 48%     |
| N/A- Not Defined                      | 4%                 | 1          | 0%     | 64             | 0%      |
| Total                                 | 100%               | 459        | 100%   | 147,558        | 100%    |



The bank did not make loans in 63% of the census tracts within the AA primarily because of the high number of census tracts. The bank originated 459 loans, but there are 342 census tracts in the AA. In addition, the bank’s loan volume was negatively impacted by the bank’s financial condition during this period. There does not appear to be any significant disparity regarding the penetration of low- and moderate-income tracts compared with middle- and upper-income tracts. Refer to the following chart for more information.

| Income Characteristic of Census Tract | # Tracts in AA | # w/o Loans | % w/o loans by income category |
|---------------------------------------|----------------|-------------|--------------------------------|
| Low                                   | 25             | 16          | 64%                            |
| Moderate                              | 74             | 53          | 72%                            |
| Middle                                | 137            | 99          | 72%                            |
| Upper                                 | 93             | 37          | 40%                            |
| N/A- Not Defined                      | 13             | 12          | n/a                            |
| Total                                 | 342            | 217         | 63%                            |

Further stratification of geographic distribution shows that the bank penetrated 57% of the census tracts that contain a high concentration of businesses. There are 138 census tracts that meet this criteria. This is consistent with the bank’s primary focus on business lending.

The bank’s Strategic Plan calls for the addition of a branch in the East County area. Currently, the bank does not have a branch in this area of the county. The bank will also open branches in Chula Vista and San Ysidro. These branches will help deliver loans into the South Bay Area. In addition, the bank will target the Mid-City area. Management has taken the initiative to assess the business credit needs of this community.

**Responses to Complaints:**

The bank has not received any CRA-related complaints during the evaluation period.

**Record of Compliance with Anti-Discriminatory Laws:**

We found no evidence of any prohibited practices during our review of the bank's compliance with consumer laws and regulations. Our 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 the bank offers.