



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

February 06, 2012

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Coast National Bank
Charter Number 23222

500 Marsh Street
San Luis Obispo, CA 93401-0000

Office of the Comptroller of the Currency

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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 Outstanding.

Coast National Bank has an excellent record of meeting the credit needs of its assessment area (AA), including low-and moderate-income individuals and areas, consistent with its resources and capabilities. The following supports this rating:

- The bank has a reasonable loan-to-deposit ratio.
- The bank's lending in its AA exceeds the standard for satisfactory performance.
- The bank's distribution of loans to businesses of different sizes exceeds the standard for satisfactory performance.
- The bank's geographic distribution of loans exceeds the standards for satisfactory performance.
- There were no public complaints about the bank's CRA performance.
- The bank's record of providing branches and/or other services enhances credit availability.

SCOPE OF EXAMINATION

We evaluated the bank's performance based on loans originated from January 1, 2009, through December 31, 2011. We focused our evaluation on the bank's primary product line, commercial loans (grouped under the title "business loans") originated during the past three years. We randomly selected 20 loans for our sample to review the bank's lending within its assessment area. We increased our sample, as necessary, to ensure we had a sample of 20 loans granted within the assessment area to review the income and geographic distributions of its loans, and its overall CRA performance. Home mortgage loan products were not selected in our sample since the bank is not a major mortgage lender. The bank also voluntarily provided information about its community development activity and this evaluation includes our assessment of the bank's community development services.

DESCRIPTION OF INSTITUTION

Coast National Bank (CNB or bank) is a community bank that opened in June 1997 and is headquartered in San Luis Obispo, California. CNB became the wholly-owned subsidiary of Coast Bancorp.

CNB provides full service banking through its main office in San Luis Obispo and three branches located in Arroyo Grande, Morro Bay, and Paso Robles, CA. In 2009, the bank consolidated its Los Osos branch into the Morro Bay branch but maintains an ATM and night depository in the former Los Osos branch location. ATM services are

available at each location. While the bank’s primary loan product is business loans, consumer and home mortgage products are available.

The bank’s last CRA examination was dated June 27, 2005, at which time the banks was rated “Satisfactory”. There are no legal or financial factors that impede the bank’s ability to help meet the credit needs of its community. As of December 31, 2011, CNB had total assets of \$132 million with \$79 million in loans, which represents net loans to total assets of 60%.

Please refer to the bank’s CRA public file for more information about the institution

DESCRIPTION OF ASSESSMENT AREA(S)

The bank’s AA meets the regulation’s requirement and does not arbitrarily exclude low- or moderate-income geographies. It includes all census tracts located in the San Luis Obispo-Paso Robles Metropolitan Statistical Area (MSA). According to the 2000 U.S. Census data, moderate- income tracts represent 18.2% of all census tracts in the AA. There are no low-income census tracts in the AA. As of 2010, the population of the AA is estimated to be 269,637, according to the 2000 U.S. Census data. The following table provides additional information about the demographics of the San Luis Obispo MSA.

Demographic Information for Full Scope Area: San Luis Obispo-Paso Robles CA MSA						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts/BNAs)	44	0.00	18.18	68.18	11.36	2.27
Population by Geography	246,681	0.00	16.72	69.48	13.79	0.01
Owner-Occupied Housing by Geography	56,992	0.00	10.27	75.43	14.31	0.00
Business by Geography	32,691	0.00	18.67	67.54	13.80	0.00
Farms by Geography	1,380	0.00	12.97	72.75	14.28	0.00
Family Distribution by Income Level	58,954	18.57	18.88	22.65	39.90	0.00
Distribution of Low and Moderate Income Families throughout AA Geographies	22,075	0.00	20.28	71.71	8.01	0.00
Median Family Income		52,528	Median Housing Value		233,023	
HUD Adjusted Median Family Income for 2011		74,400	Unemployment Rate		2.80%	
Households Below Poverty Level		12%	(2000 US Census)			

(*) The NA category consists of geographies that have not been assigned an income classification.
 Source: 2000 US Census and 2011 HUD updated MFI

CNB faces competition from 16 banks operating within the assessment area. CNB ranks 12th in deposit market share with a market share of 2.5%. The four largest banks hold a market share of 61.6%. The competing institutions include large nationwide and regional banks, such as RaboBank, Bank of America, Wells Fargo, and JP Morgan Chase and smaller local banks, such as Heritage Oaks Bank and Santa Lucia Bank.

Please refer to the bank’s CRA public file for more information about the assessment

areas.

DETERMINATION OF PRIMARY LOAN PRODUCTS

Table 1 reflects the bank's loan portfolio by number and dollar volume.

Table 1

Coast National Bank Loan Portfolio Composition As of 12/31/2011		
Loan Type	Dollar (000)*	Percentage
Business/Commercial Loans	67,007	80.3%
Residential Mortgage Loans	14,444	17.3%
Consumer Loans	1,047	1.3%
Farm Loans	983	1.1%
TOTAL	83,481	100%

Source: Call Report as of 12/31/11

*Reflects total commitment amount.

Commercial lending is the bank's primary loan product. As such, we analyzed a random selection of business loans for this performance evaluation. We analyzed loans originated between January 1, 2009 and December 31, 2011. We compared loans originated between 2009 and 2011 to the 2000 U.S. Census demographic data and 2011 Dunn & Bradstreet.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit (LTD) ratio demonstrates a willingness to lend. The level of lending is reasonable given the bank's size, area credit needs, and the competitive banking market. We analyzed the bank's quarterly LTD ratio from June 2005 through September 2011. During this period, the LTD ranged from a low of 62% to a high of 96%, with an average of 82% over 26 quarters ending September 2011. We compared the bank's average ratio to that of three peer banks of comparable asset size that operate in the same assessment area. The peer group's quarterly LTD over the same time period averaged 89.5%. The bank's average ratio was lower than the peer group average but the bank shrank in asset-size nearly 27% since year-end 2008 as it tries to bolster its capital and reduce its concentration in commercial real estate loans. The bank is still actively making loans within its community. Given its current operating environment, the bank's LTD ratio is considered reasonable and meets the standard for satisfactory performance.

Lending in Assessment Area

The bank’s record of lending within the assessment area exceeds the standard for satisfactory performance.

Table 2

Coast National Bank Lending in the San Luis Obispo-Paso Robles MSA									
Loan Type	Number of Loans				Dollars of Loans (000s)				
	Inside		Outside		Inside		Outside		
	#	%	#	%	\$	%	\$	%	
Business Loans	18	90%	2	10%	\$7,284	94%	\$450	6%	
Totals	18	90%	2	10%	\$7,284	94%	\$450	6%	

Source: Sample of 20 business loans originated from January 1, 2009 to December 31, 2011

A significant majority of the bank’s loans are originated within its defined assessment area. For this performance criterion, we randomly sampled 20 business loans originated between 2009 and 2011. Table 2 indicates the bank originated 90% of the number and 94% of the dollar volume of loans within the defined assessment areas.

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

The distribution of the bank’s loans to businesses of different sizes exceeds the standard for satisfactory performance. For purposes of this evaluation, businesses with annual revenues of \$1.0 million dollars or less are deemed to be small businesses. Our analysis included a random sample of 20 business loans originated within the bank’s assessment area. As noted above, we selected this loan product for review because it was the bank’s primary product line. The following table displays the bank’s lending practices based on our sample of business borrowers.

Table 3

Income Distribution-Loans to Businesses Loans Originated Between 2009 and 2011 San Luis Obispo-Paso Robles MSA				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	71%	3%	26%	100%
% of Bank Loans in AA by #	85%	15%	0%	100%
% of Bank Loans in AA by \$	70%	30%	0%	100%

Demographic Data Source: 2011 Dun and Bradstreet

As the table above shows, the percentage of small businesses within the San Luis Obispo-Paso Robles MSA is 71%. Based on our sample, the bank’s distribution of

business loans to businesses with revenues of \$1 million or less exceeds the area demographics by number and was commensurate by dollar amount to that of the 2011 Dun and Bradstreet data. The bank originated 85% of the number of its business loans to small businesses and 70% by dollar volume. We place more emphasis on the number of loans percentage because it focuses on the bank’s performance in actually making loans to small businesses rather than the dollar amount of the loan.

Geographic Distribution of Loans

The geographic distribution of the bank’s loans exceeds the standard for satisfactory performance and reflects satisfactory dispersion throughout the AA. We reviewed the pattern for geographic distribution of lending in moderate-income tracts (there are no low-income census tracts) within the AA. Dun & Bradstreet demographics track where businesses are located based on U.S. Census information. Table 4 details the bank’s commercial lending activity within the assessment area. We used the same sample of commercial loans from the **Lending to Businesses of Different Sizes** section of this performance evaluation.

Table 4

Geographic Distribution of Loans to Businesses Loans Originated Between 2009 and 2011 San Luis Obispo-Paso Robles MSA								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
2009-2011 Sample ¹	0%	0%	19%	25%	67%	50%	14%	25%

Demographic Data Source: ¹ 2011 Dun and Bradstreet

Table 4 indicates that 25% of the bank’s business borrowers, or the property securing the loans were located in moderate-income census tracts. These results exceeded the area demographics, where as 19% of businesses in San Luis Obispo County are located in moderate-income tracts.

Qualified Investments and CD Services

Retail Services

The distribution of the bank’s branches and service delivery systems are excellent and accessible to individuals of different income levels. The bank has four full-service branch locations that have full service ATMs and the bank maintains an ATM and night depository at the site of a former branch. Branch hours are convenient to individuals and the bank offers 24-hour internet banking services.

At the beginning of the review period, the bank operated five branches but consolidated its Los Oso Branch with the Morro Bay Branch in October 2009. Of the remaining four branches, two branches are located in moderate-income census tracts and two branches as well as the Los Osos ATM facilities are located in middle-income geographies with low- and moderate-income families representing more than 35.0 percent of all families in the tracts.

Community Development Services

The bank's community development services are excellent. Through its participation in the Federal Home Loan Bank of San Francisco's (FHLB) Affordable Housing Program (AHP) and Access to Housing and Economic Assistance for Development (AHEAD), the bank facilitated the awarding of more than \$1.0 million in grant funds to local community development organizations. The grant application process is a time-consuming and resource-driven process that, if successful, facilitates community development activity. A description of each FHLB's grant program and the extent of the bank's participation are as follows:

- The AHP program is a direct subsidy awards program. CNB, as a member bank of the FHLB, sponsors an organization's project and applies for grant funds on behalf of that organization. An AHP project usually, but not necessarily always, involves the development of affordable housing units, downpayment assistance, or transitional housing. A typical project usually entails a complex combination of funding sources and support (public, private, not-for-profit, and donations) and address several issues (social and financial) that negatively impact low- and moderate-income individuals. Since April 1, 2005, the bank sponsored four projects and facilitated the granting of \$1,008,500 in subsidies. While successful in facilitating the above mentioned grant awards, the bank has sponsored other projects that did not win grants in this competitive program and some of the successful awards resulted from multiple applications over different competition periods. Lastly, and although outside of the assessment area, the bank also facilitated the granting of \$72,000 for a project in Santa Barbara to be developed by an organization serving both San Luis Obispo and Santa Barbara Counties.
- The AHEAD program is designed to provide grants to support the conception and early development stages of targeted economic development and housing projects. AHEAD funds are awarded annually to projects that create or retain jobs; facilitate public or private infrastructure improvements; or produce housing, services, or other benefits for low- to moderate-income households and neighborhoods. Since April 1, 2005, the bank facilitated the granting of \$95,000 in AHEAD funds to four community development organizations.

- Participation in the FHLB's subsidy programs is a long-term commitment by member bank sponsors. The bank's community development services, in relation the FHLB's grant programs, do not end with submission and awarding of grant subsidies. The bank also provides on-going monitoring of projects awarded funds to ensure compliance with the terms and restrictions of the project. In addition to the projects that the bank sponsored during the review period that require on-going compliance monitoring, the bank also assumed responsibility for monitoring of an AHEAD project sponsored by another bank that ceased operations.

Responses to Complaints

No consumer complaints associated with the bank's performance under the provisions of the CRA have been made during the review period.

Fair Lending or Other Illegal Credit Practices Review

We found no evidence of illegal discrimination or of the use other illegal credit practices. There were no violations of the substantive provisions of the anti-discrimination laws and regulations identified. Based on this review, it was determined that the bank's compliance with fair lending laws is satisfactory.