



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

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PUBLIC DISCLOSURE

October 8, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Palm Desert National Bank
Charter Number 17121**

**73-745 El Paseo
Palm Desert, CA 92260**

**Comptroller of the Currency
San Diego County Duty Station
1925 Palomar Oaks Way, Suite 202
Carlsbad, CA 92008**

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 **Palm Desert National Bank** prepared by **The Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, as of October 8, 1996. 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**.”

Palm Desert National Bank provides a variety of credit products and services to its community, with a high percentage of lending in its assessment area. The loan-to-deposit ratio trend is stable and satisfactory. The bank serves its community by lending to borrowers of different incomes and businesses of different sizes. Although the bank's lending volume in moderate-income geographies appears low, most of these geographies are not located in the commercial and densely populated corridors that surround the bank's branches and is the primary focus of the bank's business strategy.

*The following table indicates the performance level of **Palm Desert National Bank** with respect to each of the five performance criteria.*

SMALL INSTITUTION ASSESSMENT CRITERIA	Palm Desert National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans			X
Response to Complaints		N/A	

DESCRIPTION OF INSTITUTION:

Palm Desert National Bank (“the bank”) is a community bank that opened in December 1981. The bank is the sole subsidiary of the Palm Desert Investment Group, which controls 82% of the bank’s stock. As of August 1996, the bank reported total assets of \$69 million and total loans of \$42 million. The bank operates its headquarters in Palm Desert, CA, and has one full-service branch in Palm Springs, CA. Palm Desert NB also owns and operates an extensive network of thirty-four nondeposit-taking Automatic Cash Machines (ACMs). These ACMs are located both within and outside the bank’s assessment area. Both bank offices offer 24-hour banking services through onsite Automatic Teller Machines (ATMs). These also provide access to funds through the *STAR*, *Cirrus*, and *Plus* networks. Palm Desert NB focuses on business lending. The bank offers a variety of commercial loan products, including those for working capital, commercial real estate, and construction. The bank has only moderate consumer lending activity. The loan portfolio, at August 31, 1996, reflects the bank’s business focus with commercial and construction loans at 70% and consumer loans at 30%. The bank was rated “Satisfactory Record of Meeting Community Credit Needs” by the OCC at its last CRA evaluation in July 1994.

The bank offers credit products consistent with its financial condition, size, and recent business strategy. This takes into account the condition of the local economy. Palm Desert NB’s financial condition and recent strategy have somewhat restricted its ability to originate many loans over the last few years. In 1993, the OCC initiated a Memorandum of Understanding (MOU) with the bank because loan quality had deteriorated, and as a result, there was a potential negative impact on the bank’s overall financial condition. Although the MOU was lifted in 1995, the bank continues to focus on improving loan quality while experiencing modest loan growth. The bank’s financial condition also impacted its ability to conduct advertising and marketing activities.

DESCRIPTION OF THE BANK’S COACHELLA VALLEY ASSESSMENT AREA :

The bank’s assessment area includes the entire Coachella Valley, which is part of the Riverside-San Bernardino Metropolitan Statistical Area (MSA). This assessment area includes the incorporated cities of Palm Desert, Palm Springs, Cathedral City, Rancho Mirage, La Quinta, Indian Wells, Coachella, Indio, and Desert Hot Springs. The assessment area also contains the unincorporated communities of North Palm Springs, Sky Valley, Bermuda Dunes, Sun City, Thousand Palms, Thermal, and Mecca. The bank’s two offices are located within this assessment area. The bank’s assessment area does not arbitrarily exclude low- or moderate-income geographies (census tracts) and meets the requirements of the CRA regulation. The bank’s Palm Desert office is located in an upper-income geography and its Palm Springs branch is located in a middle-income geography.

As of the 1990 census, the assessment area had a population of 225,000. However, during the winter months, the population can double because of part-year residents and visitors that are attracted to the valley's mild temperatures and golf and tennis tournaments. The MSA's 1990 census median family income was \$37,274. There are no low-income census tracts in the banks assessment area. The twenty-two census tracts in the bank's assessment area are comprised of:

Census Tract Characteristic	Count	Percentage
Low-income	0	0
Moderate-income	10	45%
Middle-income	8	36%
Upper-income	4	19%

The Coachella Valley has been one of the fastest growing areas in Riverside County, according to Wheeler's Economic Overview of the Coachella Valley (1995). Real estate and home prices remain flat but show signs of stabilization since the dramatic declines in the early 1990s. This assessment area and local economy are dominated by tourism and agriculture. However, the areas surrounding the bank's two branches consist of a variety of professional businesses such as retail trade, medical services, financial services, light manufacturing, and other industries that are associated with the area's resorts. The banking environment is highly competitive with numerous branches of large multinational/regional banks located in the immediate vicinity. Several independent community banks are also located in the area.

Based upon four community contacts made within the Coachella Valley from November 1994 to October 1995 by other regulatory agencies, the following credit needs were noted: (1) business lending within the Coachella Valley Enterprise Zone, (2) lending to the Hispanic community, and (3) lending to small businesses, including accounts receivable financing and noncollateral-based lending. The community groups that identified these credit needs included The Coachella Valley Enterprise Zone, Palm Desert Redevelopment Agency, and Coachella Valley Small Business Development Center.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio:

Palm Desert NB's loan-to-deposit ratio (LTD) is stable and satisfactory. Since the last CRA examination in July 1994, the bank's LTD ratio has averaged 69%. Other banks of similar size in the same region averaged about 61% for the same period. We considered the following banks to be "similarly situated" to Palm Desert NB for purposes of this comparison: Bank of the Desert, De Anza National Bank, FirstBank of Palm Desert, Inland Empire National Bank, Valley Bank, and Valley Merchants Bank. All of these banks have total assets between \$30 million and \$150 million and have operations in Riverside County.

Lending in Assessment Area:

The bank exceeds the satisfactory performance criteria by making a substantial majority of its loans within its assessment area. Based upon our sample of loan originations over the last fourteen months, 92% of the bank's loans were made to consumers or businesses within the assessment area. The following table provides a summary:

Time Frame	# of Loans Within the Assessment Area	% of Loans Within the Assessment Area
Sampled 1995/96 Consumer Originations [43]	38	88%
Sampled 1995/96 Commercial Originations [20]	20	100%
Aggregate Origination Sample [63]	58	92%

Our consumer loan sample consisted of 43 loans originated from June 30, 1995, to August 31, 1996. The consumer sample represents about 20% of originations, by number of loans made, during this time period. Our commercial loan sample consisted of 20 loans originated during the same time period. The commercial sample represents about 13%, by number of loans made, during this time period. It should be noted that the commercial sample did not include any loan renewals or commercial real estate loans.

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

Borrowers of Different Incomes:

The distribution of our consumer loan sample generally represents the stratification of family income levels within the assessment area. Although the penetration into the low-income designation appears low, the bank's performance is considered reasonable because of its satisfactory distribution of moderate-income families. Management attributes the lower percentage of loans to low-income families to the fact that the majority (51%) of low-income families reside in the moderate-income census tracts. With one exception, these moderate-income census tracts are not located near the bank's two branches. Therefore, it would not be convenient for individuals in these areas to be customers of the bank. Also, there are other financial institutions that serve these areas as they are separated by a major freeway. The majority of low- and moderate-income families in our sample reside in the middle- and upper-income census tracts that surround the bank's branches. The following table provides a summary:

Income Designation of the Borrower	% of Families in the Assessment Area	# of Loans Sampled	% of Loans Sampled
Low	24%	4	11%
Moderate	20%	7	19%
Middle	20%	5	14%
Upper	36%	20	56%
Total	100%	36	100%

Businesses of Different Sizes:

The bank exhibits satisfactory performance with respect to lending to small businesses. Our sample of the bank's commercial loan originations suggests that 42% of its lending is to small businesses with gross annual revenues less than or equal to \$1 million. Our sample consisted of about 13% (by number of loans) of commercial loans originated over the last fourteen months or 19 loans. Again, our sample did not include renewed loans or commercial real estate loans. The bank's performance in lending to small businesses is understated because many loans to sole proprietors and individuals for business purposes are not listed on the bank's commercial loan list. This is the case because the bank's loan system does not have the ability to sort by loan purpose. We used this commercial loan list to pull our business loan sample. This reduced our chances of choosing smaller businesses

in our sample and understated the percentage of loans made to small businesses. The following table provides a summary:

Distribution by Revenue	# of Loans Reviewed	% of Loans Reviewed
Loans to Small Businesses (Revenues < or = \$1 million)	8	42%
Loans to Large Businesses (Revenues > \$1 million)	11	58%
Total Loans Reviewed	19	100%

Geographic Distribution of 1995/96 Loan Originations:

The bank does not meet the standards for satisfactory performance with respect to the geographic distribution of its loans. Based on our sample, the bank's loan originations over the last fourteen months are not evenly distributed among the census tracts in its assessment area. There are no low-income census tracts in the bank's assessment area. However, the bank originated only 9% of its loans (by number of loans) in moderate-income census tracts, while its assessment area contains 45% of these tracts. By contrast, the bank originated 46% of its loans in upper-income census tracts, while its assessment area contains only 19% of these tracts. Some of this disparity can be explained by the fact that (1) the bulk of the moderate-income census tracts are not located in close proximity to the bank's branches or to the primary commercial areas that it serves (due to its business focus), (2) the fact that it would not be convenient for individuals in most of the moderate-income geographies to be customers of the bank, and (3) the population in the moderate-income census tracts is generally less concentrated and served by other institutions. If we weight the surrounding geographies by population, the bank's assessment area still consists of a large percentage of moderate-income tracts at 38% versus penetration of 9%. This analysis shows that the bank could improve its penetration into moderate-income census tracts. However, we did note that the five loans that penetrated moderate-income geographies were made within one census tract in the Palm Springs / Cathedral City area. This is encouraging, as it is the only moderate-income census tract in the assessment area that is close to the bank's branches. The penetration of this tract demonstrates that the bank is not avoiding the moderate-income tract in close proximity to its branches. The following table provides a summary:

Income Characteristic of Census Tract	% of Census Tracts	# of Loans Sampled	% of Loans Sampled
Low	0	0	0
Moderate	45%	5	9%
Middle	36%	26	45%
Upper	19%	27	46%
Total	100%	58	100%

Responses to Complaints:

The bank has not received any CRA-related complaints.

Discriminatory Practices:

We found no evidence of any prohibited practices in our review. Our 1996 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 offered by the bank.