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

**SMALL BANK**

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## **PUBLIC DISCLOSURE**

**JULY 13, 1998**

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**FALLBROOK NATIONAL BANK  
Charter Number 18686**

**130 West Fallbrook Street  
Fallbrook, California 92028**

<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 **FALLBROOK NATIONAL BANK** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of JULY 13, 1998. 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.**”

- Fallbrook National Bank’s (FNB) lending in its assessment areas meets the standard for satisfactory performance.
- The bank’s loan-to-deposit ratio exceeds the standard for satisfactory performance.
- FNB’s loan distribution among borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.
- The bank’s loan distribution among the geographies at all income levels meets the standard for satisfactory performance.
- There were no CRA related consumer complaints.

## **DESCRIPTION OF INSTITUTION:**

Fallbrook National Bank (FNB) is a \$121 million community bank, which was established in September 1982. FNB's stock is publicly traded. The bank has a main office and one branch. The bank's main office is located in the city of Fallbrook, which is approximately 60 miles northeast of downtown San Diego. The bank's branch office is located in Temecula, California. This branch opened in May 1996. In addition, the bank operates three loan production offices (LPOs) in the counties of San Diego, Orange and San Bernardino. FNB owns and operates three automated teller machines (ATMs). Two of the ATMs are attached to the two bank offices. The third ATM is free-standing and located in the old downtown section of Temecula. Customers can make withdrawals and deposits at this ATM. The bank plans to open an additional full-service branch in Vista, California, in August 1998.

As of June 30, 1998, the bank had \$90 million in loans, comprising 74 percent of the bank's total assets. The loan portfolio consists of: 55% commercial and residential real estate; 42% business; and 3% consumer loans. SNL Securities, publisher of "Guaranteed Lender", recognized FNB as the fourteenth largest Small Business Administration (SBA) commercial bank lender in the nation. This rating is based on the dollar volume of SBA 7(a) loans originated for SBA's fiscal year ended September 1997 .

There are no legal impediments to the bank's ability to meet the credit needs of its assessment areas.

## **DESCRIPTION OF ASSESSMENT AREAS:**

FNB has two assessment areas (AA). One AA is located in the San Diego Metropolitan Statistical Area (MSA), and the other AA is in the Riverside MSA. Both of the AAs comply with the requirements of the CRA. Low- and moderate-income census tracts are not arbitrarily excluded from the AAs.

### **San Diego Assessment Area:**

The San Diego AA consists of 438 census tracts of which 26 are designated as low-income and 94 as moderate-income tracts. There are also 188 middle-income and 117 upper-income census tracts within the AA. There are 13 census tracts for which the 1990 census reported no income information.

According to the Department of Housing and Urban Development (HUD), the 1997 median family income for the AA is \$50,800. Recent Dun and Bradstreet statistics show that of the 88,280 businesses within the AA, 66,240 (or 75%) had sales of less than \$1 million. The largest employers within the AA include the following industries: service; retail trade; finance, insurance and real estate; wholesale trade; construction and manufacturing.

**Riverside Assessment Area:**

The Riverside AA consists of 93 census tracts of which 1 is designated as low-income and 24 are designated as moderate-income tracts. There are also 45 middle-income and 22 upper-income census tracts within the AA. There is 1 census tract for which the 1990 census reported no income information.

According to the Department of Housing and Urban Development (HUD), the 1997 median family income for the AA is \$46,500. Recent Dun and Bradstreet statistics show that of the 24,912 businesses within the AA, 18,378 (74%) had sales of less than \$1 million. The largest employers within the AA include the following industries: service; retail trade; construction; finance, insurance and real estate and manufacturing.

**Other Information - San Diego and Riverside Assessment Areas:**

The bank operates in a competitive environment. There are branches of major commercial banks, savings and loan associations, credit unions, community banks and other financial service providers competing for the available business within the AAs.

As part of this assessment, we considered information obtained from eight community contacts. These contacts indicate that there are needs in the AAs for the following: home improvement loans; affordable rental housing; construction loans; women- and minority-owned business credit; first-time home buyer loans; start-up business credit; micro business loans; automobile loans; and agricultural loans. There are also needs for credit education, credit counseling, and job training grants. Our contacts included the following: two city housing and redevelopment agencies; a community development housing organization; a local government; a community development financial institution; a government small business lending agency; an economic development corporation and a small business development center.

**CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

Our conclusions are based on the bank's lending activity from June 30, 1996, through December 23, 1997. We used loan data developed by the bank. We also sampled a significant number of loans to confirm the accuracy of the information and to determine the incomes and revenues of the borrowers. Our sample included 66 business and commercial and 82 consumer loans funded within the AA.

## **LENDING IN ASSESSMENT AREAS**

FNB's lending in the AA meets the standard for satisfactory performance. A majority of the bank's loans are within the AA. Of the total loans funded during this review period, 68% by dollar and 86% by number are within the AA. Please refer to the table below for specific information.

### **Lending Within Assessment Areas**

<b>Total Loans by Number and Dollar Amount</b>	<b>Total Loans Made Within Assessment Area</b>	<b>Percent of Total Loans Made Within Assessment Area</b>
<b>480</b>	<b>413</b>	<b>86%</b>
<b>\$90,789,146</b>	<b>\$61,897,146</b>	<b>68%</b>

## **LOAN TO DEPOSIT RATIO**

FNB's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. The bank's average LTD ratio for the eight quarters ended December 31, 1997, was 80%. The average ratio for similarly situated banks was 70% for the same period. These banks have similar asset size and are located within the bank's general market areas.

## **LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES**

### **San Diego Assessment Area:**

The bank's consumer loan distribution among borrowers of different incomes meets the standard for satisfactory performance. Based on our loan sample, low-income borrowers received 27% of the number of loans originated. This is a reasonable distribution because 20% of the AA is comprised of low-income families. In addition, moderate-income borrowers received 20% of the number of loans originated in the AA. The AA is comprised 19% of moderate-income families. Middle- and upper-income borrowers received 13% and 40% of the number of loans, respectively. Refer to the following table for specific information.

**Distribution of Consumer Loans to Borrowers of Different Incomes  
Within San Diego Assessment Area**

<b>Income Level</b>	<b>Percent of Families</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Numbers</b>
<b>Low</b>	<b>20%</b>	<b>\$111,343</b>	<b>19%</b>	<b>15</b>	<b>27%</b>
<b>Moderate</b>	<b>19%</b>	<b>\$120,745</b>	<b>20%</b>	<b>11</b>	<b>20%</b>
<b>Middle</b>	<b>22%</b>	<b>\$52,925</b>	<b>9%</b>	<b>7</b>	<b>13%</b>
<b>Upper</b>	<b>39%</b>	<b>\$305,796</b>	<b>52%</b>	<b>22</b>	<b>40%</b>
<b>Total</b>	<b>100%</b>	<b>\$590,809</b>	<b>100%</b>	<b>55</b>	<b>100%</b>

The bank's loan distribution among businesses of different sizes meets the standard for satisfactory performance. Based on our sample, FNB funded 64% of its loans (by dollar) and 58% (by number) to businesses with revenues of less than \$1 million. Refer to the following table for specific information.

**Distribution of Business and Commercial Real Estate Loans By Revenues  
Within San Diego Assessment Area**

<b>Revenues</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Loan Numbers</b>	<b>Percent of Numbers</b>
<b>less than \$100,000</b>	<b>\$512,400</b>	<b>16%</b>	<b>6</b>	<b>18%</b>
<b>\$100,000 to \$249,999</b>	<b>\$748,968</b>	<b>23%</b>	<b>6</b>	<b>18%</b>
<b>\$250,000 to \$499,999</b>	<b>\$450,000</b>	<b>14%</b>	<b>2</b>	<b>6%</b>
<b>\$500,000 to \$999,999</b>	<b>\$359,440</b>	<b>11%</b>	<b>5</b>	<b>15%</b>
<b>\$1,000,000 or more</b>	<b>\$1,180,924</b>	<b>36%</b>	<b>14</b>	<b>42%</b>
<b>Total</b>	<b>\$3,251,732</b>	<b>100%</b>	<b>33</b>	<b>100%*</b>

\* Rounded number

**Riverside Assessment Area:**

The bank's consumer loan distribution among borrowers of different incomes meets the standard for satisfactory performance. Based on our loan sample, low-income borrowers received 4% of the number of loans originated in the AA. The AA is comprised 18% of low-income families. Although the level of lending appears low to this demographic group, the bank originated 33% of the number of its loans to moderate-income families in the AA. This level of lending compares very favorably because only 17% of families are classified as moderate-income in the AA. Therefore, the level of lending to low- and moderate-income families is satisfactory. Middle- and upper-income borrowers received 33% and 30% of the number of loans, respectively, which is consistent with the demographic characteristics of the AA. Refer to the following table for specific information.

**Distribution of Consumer Loans to Borrowers of Different Incomes  
Within Riverside Assessment Area**

<b>Income Level</b>	<b>Percent of Families</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Number of Loans</b>	<b>Percent of Numbers</b>
<b>Low</b>	<b>18%</b>	<b>\$7,085</b>	<b>2%</b>	<b>1</b>	<b>4%</b>
<b>Moderate</b>	<b>17%</b>	<b>\$122,547</b>	<b>32%</b>	<b>9</b>	<b>33%</b>
<b>Middle</b>	<b>23%</b>	<b>\$88,876</b>	<b>24%</b>	<b>9</b>	<b>33%</b>
<b>Upper</b>	<b>42%</b>	<b>\$156,443</b>	<b>42%</b>	<b>8</b>	<b>30%</b>
<b>Total</b>	<b>100%</b>	<b>\$374,951</b>	<b>100%</b>	<b>27</b>	<b>100%</b>

The bank's loan distribution among businesses of different sizes meets the standard for satisfactory performance. Based on our sample, FNB funded 50% of its loans (by dollar) and 70% (by number) to businesses with revenues of less than \$1 million. Refer to the following table for specific information.

**Distribution of Business and Commercial Real Estate Loans By Revenues  
Within Riverside Assessment Area**

<b>Revenues</b>	<b>Loan Dollars</b>	<b>Percent of Dollars</b>	<b>Loan Numbers</b>	<b>Percent of Numbers</b>
<b>less than \$100,000</b>	<b>\$1,565,000</b>	<b>18%</b>	<b>5</b>	<b>15%</b>
<b>\$100,000 to \$249,999</b>	<b>\$833,500</b>	<b>10%</b>	<b>8</b>	<b>24%</b>
<b>\$250,000 to \$499,999</b>	<b>\$1,102,800</b>	<b>13%</b>	<b>5</b>	<b>15%</b>
<b>\$500,000 to \$999,999</b>	<b>\$778,205</b>	<b>9%</b>	<b>5</b>	<b>15%</b>
<b>more than \$1,000,000</b>	<b>\$4,250,700</b>	<b>50%</b>	<b>10</b>	<b>30%</b>
<b>Total</b>	<b>\$8,530,205</b>	<b>100%</b>	<b>33</b>	<b>100%*</b>

\*Rounded number

**GEOGRAPHIC DISTRIBUTION**

**San Diego Assessment Area:**

The bank's loan distribution among the geographies at all income levels meets the standard for satisfactory performance. Historically, the bank has been successful in penetrating the southern half of its San Diego AA (downtown San Diego area) primarily with its single-transaction, SBA products. The bank, however, does not originate a significant volume of commercial or consumer credit in this area because of the geographic distance from this area to the bank's closest branch in Fallbrook. Commercial and consumer borrowers tend to require a more convenient location because they typically perform more frequent transactions. The bank was less successful during this assessment period at penetrating the southern half of the San Diego AA because of a general increase in competition during the last few years. The number of banks and other institutions offering SBA products has increased significantly. Although there was a general lack of penetration in the southern half of the bank's San Diego AA, this lack of penetration was spread evenly among census tracts with all income characteristics. Refer to the following tables for specific information.

**Distribution of Loans By Numbers  
Within San Diego Assessment Area**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>
<b>Low</b>	<b>6%</b>	<b>3</b>	<b>1%</b>
<b>Moderate</b>	<b>21%</b>	<b>60</b>	<b>20%</b>
<b>Middle</b>	<b>43%</b>	<b>133</b>	<b>44%</b>
<b>Upper</b>	<b>27%</b>	<b>105</b>	<b>35%</b>
<b>NA*</b>	<b>3%</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>301</b>	<b>100%</b>

**Distribution of Loans By Dollars  
Within San Diego Assessment Area**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Loan Dollars</b>	<b>Percent of Loans</b>
<b>Low</b>	<b>6%</b>	<b>\$466,000</b>	<b>1%</b>
<b>Moderate</b>	<b>21%</b>	<b>\$6,209,982</b>	<b>14%</b>
<b>Middle</b>	<b>43%</b>	<b>\$16,138,406</b>	<b>37%</b>
<b>Upper</b>	<b>27%</b>	<b>\$20,471,599</b>	<b>47%</b>
<b>NA*</b>	<b>3%</b>	<b>\$0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>\$43,285,987</b>	<b>100%**</b>

\* 1990 census reported no income for these tracts.

\*\* Rounded number

**Riverside Assessment Area:**

The bank's loan distribution among the geographies meets the standard for satisfactory performance. The bank did not fund any loans in the one low-income census tract, which is where the University of California Riverside is located. Most of this census tract is occupied by the University. The bank's loan distribution among moderate-income tracts is somewhat lower than the percentage of those tracts within the AA. However, the bank's Temecula branch is still relatively new and is in close proximity to many upper-income census tracts. Therefore, it is logical to conclude that the initial loan demand is likely to come from areas that are in close proximity to the branch. We expect that this distribution will equalize over time. Please refer to the following tables for specific information.

**Distribution of Loans By Numbers  
Within Riverside Assessment Area**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Number of Loans</b>	<b>Percent of Loans</b>
<b>Low</b>	<b>1%</b>	<b>0</b>	<b>0%</b>
<b>Moderate</b>	<b>26%</b>	<b>11</b>	<b>10%</b>
<b>Middle</b>	<b>48%</b>	<b>29</b>	<b>26%</b>
<b>Upper</b>	<b>24%</b>	<b>72</b>	<b>64%</b>
<b>NA*</b>	<b>1%</b>	<b>0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>112</b>	<b>100%</b>

**Distribution of Loans By Dollars  
Within Riverside Assessment Area**

<b>Income Characteristic of Census Tracts</b>	<b>Percent of Total Census Tracts</b>	<b>Loan Dollars</b>	<b>Percent of Loans</b>
<b>Low</b>	<b>1%</b>	<b>\$0</b>	<b>0%</b>
<b>Moderate</b>	<b>26%</b>	<b>\$2,775,975</b>	<b>15%</b>
<b>Middle</b>	<b>48%</b>	<b>\$4,942,114</b>	<b>27%</b>
<b>Upper</b>	<b>24%</b>	<b>\$10,893,760</b>	<b>58%</b>
<b>NA*</b>	<b>1%</b>	<b>\$0</b>	<b>0%</b>
<b>Total</b>	<b>100%</b>	<b>\$18,611,849</b>	<b>100%</b>

\* 1990 census reported no income for these tracts.

**RESPONSE TO WRITTEN COMPLAINTS**

FNB has not received any CRA-related consumer complaints.

**RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS**

We did not identify any violations of anti-discrimination laws or regulations.