



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 8, 2002

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**South County Bank, National Association
Charter Number 23801**

**22342 Avenida Empresa
Rancho Santa Margarita, CA 92688**

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

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.

TABLE OF CONTENTS

<u>INSTITUTION'S CRA RATING</u>	2
<u>DESCRIPTION OF INSTITUTION</u>	2
<u>DESCRIPTION OF ASSESSMENT AREA</u>	4
<u>CONCLUSIONS ABOUT PERFORMANCE CRITERIA</u>	6

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 an 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 **South County Bank, National Association**, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 31, 2002. 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 primary factors supporting this rating are:

- ◆ The loan-to-deposit ratio is strong compared with peer bank averages and considering this is a newly formed institution.
- ◆ Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need.
- ◆ The geographic distribution of loans is reasonable given the bank's business strategy and area demographics.

DESCRIPTION OF INSTITUTION

South County Bank, National Association, is an independently owned community bank headquartered in Rancho Santa Margarita, California. This represents the bank's first CRA evaluation since it opened in October 1999.

South County Bank provides community access to credit at its one branch office, which is situated in an upper income census tract and surrounded by middle- and upper-income tracts. The Consumer Finance Group (CFG), the bank's wholesale mortgage loan department, is located in nearby Mission Viejo.

The bank maintains eight automatic teller machines. These include two at the branch office, three others at various retail locations in Rancho Santa Margarita, and one each in nearby Aliso Viejo, Foothill Ranch, and Concordia University in Irvine. The bank also offers online banking services at its Internet website.

Currently, there are no legal or financial impediments to the bank's ability to meet community credit needs. The need to achieve profitability was a primary concern for this newly formed bank as it sought to establish market area identity and attract local loan relationships. At year-end 2000, the first full year of operation, assets totaled \$19 million and net losses were nearly \$1.6 million.

The need for initial revenue prompted two business strategies that impacted certain lending patterns. A substantial majority of early lending consisted of out-of-area loans purchased from other financial institutions, but the bank reduced its reliance on this practice over time. The CFG origination of equity mortgage loans sold on the secondary market also produced critical initial revenue. The bank markets this product nation wide, but local originations are lacking because of a high degree of product saturation in the area, as well as intense competition from numerous local mortgage-lending operations. The bank sells these loans within 90 days of origination, however, and they represent a comparatively small percentage of the bank's outstanding portfolio

The proportion of lending within the defined assessment area increased as the bank established its local reputation, and as financial constraints that are typically associated with a new institution improved. By year-end 2001, the bank achieved strong growth with total assets of \$48 million, and achieved net profit of \$17,000. Through the first quarter of 2002, the bank achieved net profit of \$74,000, with total assets of nearly \$55 million, net loans of \$37 million (67% of total assets), and total deposits of \$51 million.

A wide variety of loan and deposit products are available, but the primary business focus is commercial lending. Business loans, commercial real estate, and construction loans comprise 56% of the total loan portfolio by dollar volume. The following table reflects the current loan portfolio by major product type.

**TOTAL LOANS OUTSTANDING BY MAJOR PRODUCT TYPE
AS OF MARCH 31, 2002**

Loan Product	Amount Outstanding (000's)	Percent (%) of Total Loans
Business, Commercial Real Estate and Construction	\$20,890	56%
Consumer Loans and Lines of Credit	\$8,678	23%
CFG Wholesale Mortgage Loans	\$6,603	18%
FHA Title I Wholesale	\$751	2%
Multifamily/Residential RE	\$638	1%
Total Loans	\$37,560	100%

ASSESSMENT AREA DESCRIPTION

South County Bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area consists of the 484 census tracts that comprise the Metropolitan Statistical Area (MSA) 5945-County of Orange.

The City of Rancho Santa Margarita, where the bank is located, is a relatively new and affluent community in southeastern Orange County. The city incorporated in January 2000 and has a population of approximately 47,200. Orange County is situated in Southern California, and is bounded by the counties of Los Angeles to the north, San Diego to the south, Riverside to the east, and by the Pacific Ocean to the west. It is currently the second largest county in California and the sixth largest in the nation. It consists of 34 cities, extending north to La Habra, south to San Clemente, west to Los Alamitos and Seal Beach, and east to Rancho Santa Margarita.

Orange County has a diverse economy. The employed labor force at the end of 2001 was approximately 1.5 million, with the largest labor markets comprised of services (31%), trade (24%), and manufacturing (17%), though manufacturing experienced some fluctuation. Amusement parks such as Disneyland and Knott's Berry Farm, along with 42 miles of beaches, make the county the third largest center for tourism-related employment in California. Employment is projected to increase by nearly 23% over the next 10 years to approximately 1.8 million. Small businesses are predominant with 80% of residents employed in companies with fewer than 500 employees, compared to the state average of 75%.

The county's central location, diversity, and growth contributed to a strong area economy compared to the slowing that occurred in recent years at the state and national levels. As of October 2001, the unemployment rate was 3.4%, compared to the state and national rates, both at 5.4%. If Orange County were measured as a country, its gross product would rank it approximately 31st in the world.

There is a lack of affordable housing as demand is outpacing supply. In 2000, demand outpaced supply by a larger gap than in any other metropolitan area in the nation. The inability to meet housing demand has driven up the cost of home purchases and rental units, and has hindered the ability of employers to attract and retain skilled workers.

[Sources of economic and demographic trends cited above: *The 2002 Orange County Community Indicators Report*, and the *Economic & Business Review*, December 2001, Chapman University.]

According to the 1990 Census, the total population in the bank's defined area was 2,410,556 (the 2000 Census data were not available for analysis at the time of this evaluation). Median housing value in the area was \$257,224 with 57% of all housing units owner occupied. The following table reflects the area's census tracts by income category, and the household population of the respective tracts, according to the 1990 Census. The "non-designated tracts" consist either of undeveloped areas, university or college properties, municipal water district, or beach property.

ORANGE COUNTY ASSESSMENT AREA

CENSUS TRACT COMPOSITION

Census Tract Income Category	Number of Tracts In Area	Percent of Area by Tract Type	1990 Households	Percent of Population within Tract Category
Low Income Tracts	14	3%	19,621	3%
Moderate Income Tracts	118	24%	203,765	15%
Middle Income Tracts	213	44%	366,457	51%
Upper Income Tracts	133	28%	238,998	31%
Non-Designated	6	1%	8	0%
Total	484	100%	828,849	100%

The 1990 Census median family income in the area was \$51,269. The Department of Housing and Urban Development (HUD) updated the median family income in 2001 to \$73,700. The following table reflects the distribution of families by income level, according to the 1990 Census.

ASSESSMENT AREA FAMILY DISTRIBUTION

Family Income Level	Number of Families by Income Level	Percent of Families in Area
Low Income Families	110,124	18%
Moderate Income Families	112,222	19%
Middle Income Families	139,185	24%
Upper Income Families	228,959	39%
Total	590,490	100%

Competition among financial institutions in the assessment area is strong. South County Bank is currently the only independent community bank in Rancho Santa Margarita, but it competes directly with branches of mid-size and large commercial banks in the immediate vicinity. It also competes with numerous large commercial banks, savings banks, and other independent commercial banks for market share throughout the Orange County assessment area.

Credit Needs in the Assessment Area

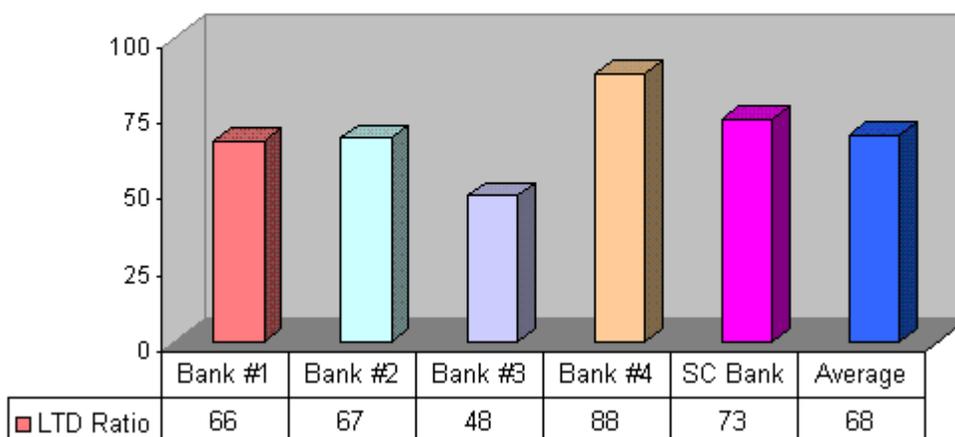
We contacted two organizations to determine primary credit needs within the assessment area: a small-business development corporation and a nonprofit community-outreach organization. The business development corporation reported that there is a continued need for business loans with flexible underwriting criteria as well as a need for loans in small dollar amounts. The community organization reported that transitional housing and employment development programs for low-income persons are critical needs. Meetings between other federal regulatory agencies and community groups also considered affordable housing to be a primary need within the MSA.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is strong given its size, and especially considering it is a newly formed institution. We evaluated the quarterly average loan-to-deposit ratio over the last 10 quarters since the bank opened. The bank's average ratio is 73%. This compares favorably with the 68% average ratio of similarly situated banks (banks with similar asset size and located in the Orange County MSA). The following chart reflects South County Bank's average loan-to-deposit ratio with peer bank averages.

**LOAN-TO-DEPOSIT RATIO ANALYSIS
SOUTH COUNTY BANK AND PEER BANKS**



Lending to Businesses of Different Sizes and Borrowers of Different Income Levels

South County Bank's lending to businesses of different sizes and borrowers of different income levels in the assessment area is satisfactory. Our analysis focused on the bank's primary products of business and consumer-purpose loans.

Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need. The bank grants small-sized loans (\$100,000 or less), which is an identified community credit need, especially among small businesses (having gross annual revenue of \$1 million or less). Small businesses received the majority of the number of business loans. Larger-sized businesses received the majority of the dollar volume of loans. We gave greater weight in our analysis to the number of loans made since the size of loans to small businesses is typically smaller.

We used the bank's analysis of loan data from October 1999 through March 2002, which we tested for accuracy. The following tables reflect the bank's record of lending to businesses in the assessment area by loan size and by gross annual revenue of the business.

**LENDING TO BUSINESSES OF DIFFERENT SIZES
LOAN SIZE DISTRIBUTION
October 1999 through March 2002**

Loan Size	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollar Volume
<=\$100,000	162	75%	\$5,430,000	25%
>\$100,000 to \$250,000	30	14%	\$5,582,000	25%
>=\$250,000 to \$1 Million	25	11%	\$11,003,000	50%
Subtotal <= \$1 Million	217	100%	\$22,015,000	100%
> \$1 Million	-0-	0%	-0-	0%
Total	217	100%	\$22,015,000	100%

**LENDING TO BUSINESSES OF DIFFERENT SIZES
DISTRIBUTION BY BUSINESS SIZE
(Businesses Reporting Gross Annual Revenue)
October 1999 through March 2002**

	Loans to Businesses with Revenue Data	Loans to Businesses with Revenue <= \$1 Million	Percent of Loans to Businesses with Revenue <= \$1 Million	Loans to Businesses with Revenue >\$1 Million	Percent of Loans to Businesses with Revenue >\$1 Million
Number	209	111	53%	98	47%
Dollar Volume	\$20,072,000	\$8,161,000	41%	\$11,911,000	59%

South County Bank also has a good record of lending to consumer borrowers of different income levels. The portion of the number of consumer loans (24%) the bank made to low-income borrowers exceeds the portion of low-income households in the area (20%). The dollar volume of loans (5%) to low-income borrowers was lower than the percentage of low-income households (20%). We gave greater weight in our analysis to the number of loans made since the size of loans to low-income individuals is typically smaller. Lending to moderate-income borrowers compares reasonably with area demographics.

We used the bank's analysis of loan data, which we tested for accuracy. The following table reflects the bank's record of lending to borrowers of different income levels within in the assessment area.

LENDING TO BORROWERS OF DIFFERENT INCOME LEVELS
(Borrowers with Income Data)
October 1999 through March 2002

Borrower Income Level	Percent of Households at Income Level	Loan Dollars by Income Level	Percent of Dollars	Number of Loans by Income Level	Percent of Numbers
Low	20%	\$450,000	5%	74	24%
Moderate	18%	\$983,000	12%	52	17%
Middle	22%	\$984,000	12%	62	21%
Upper	40%	\$5,891,000	71%	115	38%
Total	100%	\$8,308,000	100%	303	100%

South County Bank also helps meet the identified credit needs of its communities through active involvement in a number of organizations. For example, a bank senior lender helped initiate the Small Business Financial Development Corporation of Orange County, which was formed to facilitate state-guaranteed loans for businesses that require flexible underwriting. The bank officer also serves on the loan committee, which meets monthly to review and recommend loans for small and start-up businesses that would not otherwise qualify under typical underwriting guidelines. South County Bank directly funded several of these loans during the evaluation period totaling approximately \$700,000 (included in our business loan analysis above). The senior bank officer also helped new small-business owners develop business plans and provided instruction on applying for credit.

Geographic Distribution of Loans

The geographic distribution of loans is reasonable given the bank's business strategy and area demographics. Our analysis focused on the bank's primary products of business and consumer-purpose loans.

The distribution of business loans compares very favorably with area demographics. Businesses in low-income census tracts received 12% of the number and 9% of the dollar volume of loans the bank originated or purchased during the evaluation period. This significantly exceeds the percentage of businesses in low-income census tracts in the area. The number and dollar volume of business loans in upper-income census tracts is substantial, but the bank is located in a predominantly upper-income area. Given the bank's concerted efforts to lend in its local market area, business loan distribution reflects the results of those efforts. Lending in moderate-income census tracts compares reasonably with the demographics.

The distribution of consumer loans does not compare as favorably with area demographics, but is reasonably explained. Households in low-income census tracts received less than 1% of the number of loans and 2% of the dollar volume of loans the bank originated or purchased during the evaluation period. Households in moderate-income census tracts received 9% of the number of loans and 4% of the dollar volume. These lending patterns do not closely correspond to the area demographics. However, the bank is located in a predominantly upper-income community and the bank's consumer borrowers are predominantly depositors who reside locally. Low- and moderate-income census tracts are located several miles from the bank. Borrowers in those areas are less likely to travel great distances to seek consumer-purpose credit, but rather to the numerous financial institutions that are located closer to where they reside.

In our analysis, we gave greater weight to business lending performance. Business loans comprised the greater volume of loans originated during the evaluation period, and they represent the bank's primary business focus.

We used the bank's analysis of loan data, which we tested for accuracy. The following tables reflect the geographic distribution of business and consumer loans by census tract category.

**GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS
October 1999 through March 2002**

Census Tract Income Level	Percent of Businesses Located in Tract Category	Number of Loans in Tract Category	Percent of Number of Loans in Tract Category	Dollar Amount in Tract Category	Percent of Total Dollar Amount in Tract Category
Low	4%	26	12%	\$1,865,000	9%
Moderate	28%	43	20%	\$4,955,000	22%
Middle	41%	45	21%	\$4,405,000	20%
Upper	27%	103	47%	\$10,790,000	49%
N/A	0	0	0	0	0
Total	100%	217	100%	\$22,015,000	100%

**GEOGRAPHIC DISTRIBUTION OF CONSUMER LOANS
October 1999 through March 2002**

Census Tract Income Level	Percent of Households in Tract Category	Number of Loans in Tract Category	Percent of Number of Loans in Tract Category	Dollar Amount in Tract Category	Percent of Total Dollar Amount in Tract Category
Low	2%	1	<1%	\$175,000	2%
Moderate	25%	31	9%	\$328,000	4%
Middle	44%	90	27%	\$914,000	10%
Upper	29%	218	64%	\$7,656,000	84%
N/A	NA	0	0	0	0
Total	100%	340	100%	\$9,073,000	100%

As a newly formed bank, South County Bank is seeking innovative ways to improve its consumer-lending performance in the more distant low- and moderate-income areas as resources permit. For example, the bank recently contributed \$1,000 to the Affordable Housing Clearinghouse, an organization formed to facilitate affordable housing development, which is an identified community credit need.

Lending within the Assessment Area

The number and dollar volume of loans granted within the assessment area during the evaluation period is reasonable given the bank’s resources and business strategies, as discussed earlier in this document. Including CFG wholesale lending, the bank originated and purchased only 22% of the number of loans and 24% of the dollar volume within its assessment area. Excluding CFG wholesale lending, however, performance within the defined area is favorable. Loans made within the area represent 66% of the number of loans and 56% of the dollar volume during the evaluation period. We gave greater weight in our analysis to business lending patterns since they represent the bank’s primary focus.

As illustrated in the tables below, lending within the area shows an improving trend over time, and demonstrates commitment to further strengthen community-lending performance.

We used the bank’s analysis of loan data, which we tested for accuracy. The following table reflects the number and dollar volume of loans the bank originated or purchased both inside and outside the assessment area, *including* wholesale loans.

**TOTAL LENDING VOLUME
October 1999 through March 2002**

	Number of Loans	Percent of Total Number	Dollar Volume	Percent of Total Dollar Volume
Inside Area	644	22%	\$36,204,000	24%
Outside Area	2,299	78%	\$112,679,000	76%
Total Loans	2,943	100%	\$148,883,000	100%

Excluding CFG wholesale lending, performance is favorable with a majority of the remaining number and dollar volume of loans originated within the defined area. The following table reflects the number and dollar volume of loans the bank originated and purchased both inside and outside the assessment area, excluding CFG loans.

TOTAL LENDING VOLUME
(Excluding Consumer Finance Group Wholesale Loans)
October 1999 through March 2002

	Number of Loans	Percent of Total Number	Dollar Volume	Percent of Total Dollar Volume
Inside Area	557	66%	\$31,088,000	56%
Outside Area	289	34%	\$22,046,000	44%
Total Loans	846	100%	\$53,134,000	100%

When analyzing by loan type, a majority of the number and dollar volume of both consumer and business loans was within the assessment area. The following table reflects the number and dollar volume of loans the bank originated or purchased within the area by these major loan types, *excluding* wholesale loans.

LENDING IN THE ASSESSMENT AREA BY LOAN TYPE
(Excluding Consumer Finance Group Wholesale Loans)
October 1999 through March 2002

Loan Type	Number of Loans	Number in Assessment Area	Percent of Number of Loans in Area By Type	Dollar Volume By Type	Dollar Volume in Area By Type	Percent of Dollar Volume in Area By Type
Consumer	562	340	61%	\$13,409,000	\$9,073,000	68%
Business	284	217	76%	\$39,725,000	\$22,015,000	55%
Total Loans	846	557	66%	\$53,134,000	\$31,088,000	59%

When analyzing performance trends, the number and dollar volume of both consumer and business loans within the assessment area increases over time, demonstrating the bank's commitment to meet credit needs within its market area. The following table reflects the number and dollar volume of loans originated or purchased in the assessment area over successive periods, *excluding* CFG wholesale lending.

LENDING IN THE ASSESSMENT AREA
TREND ANALYSIS
(Excluding Consumer Finance Group Wholesale Loans)
October 1999 through March 2002

Period	Percent of Number of Loans in Assessment Area	Percent of Dollar Volume of Loans in Assessment Area
October 1999 through 2000	67%	40%
2001	72%	63%
First Quarter 2002	87%	63%

Responses to Complaints

South County Bank has received no complaints about its performance under the Community Reinvestment Act during this evaluation period.

Record of Compliance with Fair Lending Laws

We performed an analysis of public comments and consumer complaint information according to the OCC's risk-based approach to fair lending. Based on analysis of the information, the OCC determined that a comprehensive fair lending examination would not be required in connection with the CRA evaluation this year.

Services

South County Bank is actively involved in a number of local community-based organizations that help meet the needs of low- and moderate-income persons. The bank commits significant time and resources, including financial contributions, to programs that provide services within the assessment area.

- For example, the bank president is a director and chief financial officer of the Bell Tower Foundation in Rancho Santa Margarita. This center provides, among other things, educational programs for low- and moderate-income students that are not otherwise available in their schools. South County Bank is contributing \$5,000 annually to this foundation over a five-year period.
- A senior bank officer is a director of the Saddleback Community Outreach (SCO) and is an active member of its finance committee. This organization provides a variety of community development services including emergency housing for low-income and homeless families, interest-free loans for low- and moderate-income families facing eviction, food distribution services, and employment development programs. During the evaluation period, South County Bank contributed \$6,250 directly to SCO, and an additional \$3,000 to the charity golf tournament that helps support this organization.
- Another senior bank officer has a leadership role in an on-going program that provides \$10,000 in annual college scholarships for students from low- and moderate-income families.