



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 13, 2011**

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Commerce National Bank  
Charter Number 24404

4040 Macarthur Boulevard, Suite 100  
Newport Beach, CA 92660

Office of the Comptroller of the Currency

San Diego Field Office  
1925 Palomar Oaks Way, Suite 202  
Carlsbad, CA. 92008-6526

**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 Satisfactory.**

The major factors supporting the institution's rating are as follows.

- The loan-to-deposit ratio meets the standard for satisfactory performance and is reasonable.
- Lending within the assessment area meets the standard for satisfactory performance. The bank granted a majority of the number and dollar volume of loans within the assessment area.
- The geographic distribution of loans exceeds the standard for satisfactory performance and reflects excellent dispersion compared to area demographics.
- Lending penetration among businesses of different incomes does not meet the standard for satisfactory performance.

## **SCOPE OF EXAMINATION**

We evaluated performance using the lending test criteria in the CRA regulation for small bank examinations. We analyzed a random sample of commercial loans that Commerce National (CNB) originated or purchased between January 1, 2009 and May 31, 2011. We focused our review on commercial loans because they represent the major portion of the bank's lending activity. Consumer lending is not a focus of CNB's operating strategy.

## **DESCRIPTION OF INSTITUTION**

Commerce National Bank (CNB) is a \$302 million community bank that opened for business in December 2003. The bank has only one branch office, which is located in Newport Beach, California, situated in a middle-income census tract. CNB has no affiliates and bank ownership is widely held. This represents the bank's second CRA performance evaluation since opening.

Since the bank's last CRA examination, CNB closed its original branch in Fullerton, California on December 31, 2010. After several years of operation, the Fullerton office did not prove profitable. In January 2007, the bank also closed its very small Irvine office (which had opened in August 2004) and opened the current Newport Beach location in a more spacious facility. Given CNB's business focus, the Board and management determined that the present location is more strategically located in the surrounding financial district near the John Wayne Airport. The bank also maintains a loan production office (LPO) in Anaheim, California, for the convenience of equipment lease-financing clientele.

CNB's strategic focus is lending to small- and medium-sized businesses. Accordingly, the loan

portfolio is centered in commercial loans that primarily include working capital loans and lines of credit, commercial real estate (CRE) loans, and equipment leasing. CNB also grants Small Business Administration 504 and 7(a) loan programs, which it has focused on more recently. Consumer and retail lending activities are limited. Consumer lending products are mainly accommodations to business customers as part of CNB's relationship-banking strategy. The bank does not engage in home mortgage lending.

The bank offers a wide range of banking services that include night drop services, remote deposit capture, and Internet banking. CNB does not maintain automated teller machines. Management reported that the Newport Beach office and the Anaheim LPO do not have suitable physical locations for them.

As of March 31, 2011, the bank reported total assets of \$302 million. Total loans were \$156 million, representing 52 percent of total assets. The majority of the loan portfolio consists of commercial loan products, which represent a combined 85 percent of the portfolio. The following chart reflects main portfolio categories by loan type as of March 31, 2011.

<b>Loan Portfolio Composition as of March 31, 2011</b>		
<b>Loan Type</b>	<b>\$ Outstanding (000's)</b>	<b>% of Portfolio</b>
Commercial Real Estate and Construction	83,688	53%
Commercial Business Loans/Leases	49,839	32%
Residential Real Estate-Secured	10,193	7%
Consumer	11,778	7%
Other Loans	948	1%
<b>Total:</b>	<b>\$156,446</b>	<b>100%</b>

Source: Call Report of Condition and Income, March 31, 2011

There are no financial or legal factors that impede the bank's ability to meet the credit needs of its assessment area. CNB received a "Satisfactory" rating at its last CRA examination in May 2006.

## **DESCRIPTION OF ASSESSMENT AREA**

CNB's assessment area meets the requirements of the regulation and it does not arbitrarily exclude low- or moderate-income geographies. The assessment area (AA) is the County of Orange, California, which includes all 577 census tracts that comprise the Santa Ana-Anaheim-Irvine Metropolitan Division. It is bounded by the counties of Los Angeles to the north, San Diego to the south, Riverside and San Bernardino to the east, and by the Pacific Ocean to the west. Orange County covers 798 square miles and includes 34 incorporated cities and several unincorporated areas. The incorporated cities are mostly located in the northern section of the county, stretching south and southwest along the Pacific coast. The area benefits from its coastline, which extends approximately 42 miles with nine major beach areas.

Orange County has extensive transportation facilities including airports, railroads, and freeways.

The freeway system connects the county's labor force to employment centers in Los Angeles as well as providing extensive access within county borders. The 2000 U.S. Census indicated a population of 2.8 million, with a more recent figure of 3.2 million according to the California Department of Finance.

Orange County has a diverse and comparatively stable economy. Economic output and employment is well distributed among various sectors. As of December 2010, the largest labor markets included trade, transportation and utilities; professional and business services; and leisure and hospitality. The major employers in Orange County include the Walt Disney Company; University of California, Irvine, County of Orange, St. Joseph Health System, and Boeing Company.

The State of California Employment Development Department reported an 8.6 percent unemployment rate in the area, in contrast to the California statewide rate of 11.7 percent rate reported by the U.S. Bureau of Labor Statistics for April 2011. California State University Fullerton's mid-year 2011 economic forecast projects employment in the AA will increase by 1.4 percent, or 18,000 positions.

Forbes' 2010 national rankings placed Orange County 79th out of the 200 metropolitan areas it ranked. Orange County ranks well in culture and leisure, educational attainment, and projected economic and income growth; however, the county does not rank well in certain aspects such as the cost of doing business, cost of living, and job growth. The weighted average of U.S. Census median family income in the AA was reported to be \$64,321. The updated Department of Housing and Urban Development 2011 median family income is \$84,200.

According to the U.S. Census, 4 percent of the 577 tracts in the AA are low-income; 27 percent are moderate-income; 33 percent are middle-income; and 36 percent are upper-income tracts. The low- and moderate-income tracts are located mainly in the central and northwestern parts of the county. Approximately 59 percent of all housing units in the AA are owner occupied. The 2000 Census indicated a median housing value of \$275,476, with values increasing substantially in subsequent years until the recent declines in home values during the recession. According to DQNews data, the median home price in Orange County in May 2011 was \$425,000, a 5.6 percent decrease over the prior 12 months.

CNB faces strong competition for market share of loans and deposits in the AA. Competitors include large- and mid-size bank branches and other community banks. CNB's primary lending competitors are Wells Fargo Bank, Bank of the West, U.S. Bank, and Union Bank. Among smaller financial institutions, competition includes CommerceWest Bank, Orange County Business Bank, Pacific Mercantile Bank, Fullerton Community Bank, and Excel National Bank.

In conjunction with this CRA examination, examiners contacted two organizations to determine credit needs and community development needs in the area. One of the organizations reported a need for small- and micro-sized business loans with flexible underwriting criteria. This organization named Commerce National Bank as being very supportive in referring businesses with this special need. Another organization also reported the need for small business loans between \$50,000 and \$250,000; working capital loans; term loans as subordinated debt; and start-up loans for women- and minority-owned businesses.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank’s average loan-to-deposit ratio meets the standard for satisfactory performance and is reasonable.

We compared the bank’s quarterly average LTD ratio with four (4) similarly situated financial institutions: banks operating within the AA that are similar in asset size and are affected by similar market-area factors.

Since the bank’s last CRA examination, the average quarterly LTD ratio for the 20 quarters ending December 2010 was 72 percent. This is slightly lower than the 76 percent average ratio of selected peer banks during the same time period, but the CNB ratio compares reasonably.

### Lending in Assessment Area

CNB granted a majority of the number and dollar volume of a random sample of commercial loans inside its AA and meets the standard for satisfactory performance.

During the evaluation period, the bank granted 72 percent of the number and 64 percent of the dollar volume of commercial loans inside its AA. Table 1 reflects the data of loans granted inside the AA by number and by dollar volume.

Table 1

<b>Lending in the Assessment Area Commercial Loans January 1, 2009 through May 31, 2011</b>										
Loan Type	Number of Loans					Dollars of Loans (000)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial	<b>18</b>	<b>72%</b>	7	28%	25	<b>\$7,102</b>	<b>64%</b>	\$4,034	36%	\$11,136
Totals	<b>18</b>	<b>72%</b>	7	28%	25	<b>\$7,102</b>	<b>64%</b>	\$4,034	36%	\$11,136

Source: Random sample of 25 commercial loans

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

CNB’s lending performance to businesses with annual revenues of \$1 million or less does not meet the standard for satisfactory performance and reflects poor penetration compared to the area demographics.

The demographic data show that 78 percent of the businesses in the AA generate annual

revenues of \$1 million or less. In comparison, CNB granted 40 percent of the number of sampled commercial loans in the AA to borrowers with revenues of \$1 million or less. By dollar volume, 32 percent of the sampled loans had revenues of \$1 million or less.

Management explained that they do not avoid lending to businesses with smaller revenues, but a number of factors explain these results. Chiefly, loan demand is down in general from the sluggish economy; smaller sized businesses are obtaining financing from alternative sources such as credit cards; it is increasingly challenging to qualify smaller businesses given the impact of the overall recessionary economy. In response, the Board and management have hired qualified staff to increase SBA lending, and CNB continues to be openly available to review loan requests from smaller sized businesses.

Table 2 reflects the sample of commercial loans compared to business demographics in the bank’s AA.

Table 2

<b>Lending to Business of Different Sizes Commercial Loans January 1, 2009 through May 31, 2011</b>			
Business Revenues	≤\$1,000,000	>\$1,000,000	Total
% of AA Businesses *	78%	5%	100%
% of Sample Bank Loans in AA by #	40%	60%	100%
% of Sample Bank Loans in AA by \$	32%	68%	100%

Source: \*Dunn & Bradstreet reported revenue data (approximately 17% of businesses did not report revenue data; Sample of 20 commercial loans

### **Geographic Distribution of Loans**

CNB’S geographic distribution of loans exceeds the standard for satisfactory performance and reflects excellent dispersion.

The bank’s performance compares very favorably with AA demographic data. According to demographic data, 3 percent of AA businesses were located in low-income geographies. Favorably, 5 percent of sampled CNB commercial loan originations in its AA were in low-income geographies. Demographic data also show that 28 percent of AA businesses were located in moderate-income geographies compared to 40 percent of sampled CNB loans in those geographies.

Table 3 reflects the sample of commercial loans compared to area geo-demographic data.

Table 3

<b>Geographic Distribution Commercial Loans January 1, 2009 through May 31, 2011</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Commercial	% of AA Businesses	<b>% of Number of Loans</b>						
	3%	<b>5%</b>	28%	<b>40%</b>	34%	<b>40%</b>	34%	<b>15%</b>

*Source: Data collected from 2010 Business Geo-demographic data and the loan sample  
(Less than 1 percent of census tracts in Geo-demographic data do not include census data by income level).  
Sample of 20 commercial loans*

### **Responses to Complaints**

The bank has not received any complaints associated with its CRA performance.

### **Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.