

## **PUBLIC DISCLOSURE**

**June 14, 1999**

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

**Western Security Bank, N.A.  
Charter Number 21472**

**4100 West Alameda Avenue  
Burbank, California 91505**

**Comptroller of the Currency  
550 North Brand Blvd, Suite 550  
Glendale, California 91203**

**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.

**Definitions and Common Abbreviations**

The following terms and abbreviations are used throughout this Performance Evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Community Reinvestment Act (CRA)** - The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Metropolitan Statistical Area (MSA)** - Area defined by the Director of the United States Office of Management and Budget. MSAs consist of one or more counties, including large population centers and nearby communities that have a high degree of interaction.

**Census Tract (CT)** - Small, locally defined statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Home Mortgage Disclosure Act (HMDA)** - A statute that requires certain mortgage lenders that do business or have banking offices in an MSA to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and income of applicants; the amount of loan requested; and the loan disposition (e.g., approved, denied, or withdrawn).

**Median Family Income (MFI)** - The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of census tracts. Also, the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of individuals. For any given area, the median is the point at which half of the families have income above it and half below it.

**Low-Income** - Income levels that are less than 50 percent of the MFI.

**Moderate-Income** - Income levels that are at least 50 percent and less than 80 percent of the MFI.

**Middle-Income** - Income levels that are at least 80 percent and less than 120 percent of the MFI.

**Upper-Income** - Income levels that are 120 percent or more of the MFI.

**Small Business Loans** - Loans to businesses with gross annual revenues of less than \$1 million.

## 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 CRA performance of **Western Security Bank, N.A.** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **June 14, 1999**. 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.**”

Western Security Bank’s CRA performance rating is based on the following factors:

- The bank’s lending to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.
- The geographic distribution of loans throughout the assessment area meets the standards for satisfactory performance.
- The bank’s quarterly average loan-to-deposit ratio exceeds the standards for satisfactory performance.
- The number and dollar amount of loans made within the assessment area meets the standards for satisfactory performance.
- The bank has established a community development corporation that provides financing for low- and moderate-income senior citizen housing projects.

**DESCRIPTION OF INSTITUTION:**

Western Security Bank, N.A. (WSB) is a \$140 million community bank located 12 miles northwest of Los Angeles in the city of Burbank, California. Western Security Bancorp, a one-bank holding company, wholly owns WSB and is located at the same address of the bank and has total assets of \$146 million. The bank has the following three subsidiaries set up to provide lending products and services:

<u>Subsidiary</u>	<u>Lending Focus</u>
Western Security Finance Corporation	Asset-Based Financing
Western Security Acceptance Corporation	Indirect Auto Financing
Western Security Community Development Corporation	Affordable Housing Financing

The bank’s headquarters and only branch are both located in Burbank. The bank also has one automated teller machine (ATM) which is located adjacent to the branch office. WSB offers traditional financial products and services including commercial loans, Small Business Administration (SBA) loans, and deposit accounts and services. The bank’s lending focus is primarily to businesses. The bank had net loans of \$101 million at March 31, 1999, which represented 70 percent of total assets. The loan portfolio distribution includes 59 percent commercial loans and 39 percent consumer loans.

The last CRA examination was performed as of May 1, 1995, and the bank received a rating of “Satisfactory record of meeting community credit needs.” The bank does not have any legal or financial circumstances that would impede its ability to help meet the credit needs in the assessment area. The bank has neither closed nor opened any branches since the last CRA evaluation.

**DESCRIPTION OF ASSESSMENT AREA:**

WSB has designated all of Los Angeles County, California, as its assessment area. The county is located in a single MSA. This area contains 1,652 census tracts. The assessment area meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies. The 1990 U.S. Census median family income for the assessment area was \$42,940. The 1998 updated median family income for the assessment area is \$49,800. The demographic makeup of the assessment area is detailed in *Table 1*.

<b>ASSESSMENT AREA DEMOGRAPHIC DATA DISTRIBUTION BY CENSUS TRACT TABLE 1</b>										
<b>Demographic Data</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>		<b>Total</b>	
	Number	Percent	Number	Percent	Number	Percent	Number	Percent	Number	Percent
Census Tracts	147	9	377	23	544	33	565	34	1,652	100
Population (000's)	799	9	2,366	27	3,007	34	2,674	30	8,863	100
Families (000's)	156	8	495	24	691	34	694	34	2,036	100

The local economy has significantly improved and is now stable after experiencing an economic recession in the early 1990s. The primary industries in the assessment area are business and professional management, health care, tourism, international trade, technology, and entertainment. Real estate construction and sales experienced significant growth in 1997 and 1998. Unemployment levels are stable. The most recent reported unemployment rate for Los Angeles County is 4.82 percent.

Competition is strong in the assessment area. There are many financial institutions in the area competing to provide credit to businesses and consumers. These competitors include branches of multinational banks, regional banks, community banks, thrifts, savings and loans, and credit unions.

### **COMMUNITY CONTACTS:**

We made one new community contact with a local economic development corporation and reviewed six others that were on file. Generally, all contacts mentioned the continuing need in the county for affordable housing loans and start up, small business loans.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

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

- **The overall distribution of loans to borrowers of different incomes and businesses of different sizes meets the standards for satisfactory performance.**

We took random samples of consumer and commercial loans made in 1998. We found that the bank originated a substantial portion of consumer loans to low- and moderate-income borrowers. However, we found originations to small businesses to be less favorable when compared to demographic data.

### **Consumer Loan Analysis**

As illustrated in *Table 2*, our analysis of consumer loans showed that the bank provides loans to low- and moderate-income borrowers at a level exceeding the population's characteristics. Twenty percent of the number and dollar amount of consumer loans were made to low-income borrowers, while 35 percent of the number and 33 percent of the dollar amount was to moderate-income borrowers. This compares favorable to the distribution of families in the assessment area by income level. Most of the bank's consumer loans are indirect auto loans. As part of the indirect loan program, the bank established a *First Time Buyer Program*. Many of the loan originations in this program are to low- and moderate-income individuals in the assessment area.

CONSUMER LOANS DISTRIBUTION OF BORROWERS BY INCOME LEVELS TABLE 2				
Income Level	Number of Loans in Sample	Percent of Loans by Number	Percent of Loans by Dollar Amount	Percent of Families in Each Category
Low Income	4	20	20	8
Moderate Income	7	35	33	24
Middle Income	2	10	9	34
Upper Income	7	35	38	34
Sample Totals	20	100	100	100

### **Business Loan Analysis**

As illustrated in *Table 3*, our analysis of loans to businesses showed that the bank provides loans to small businesses at a level below the demographic characteristics. Forty-three percent of the loan originations in our sample were made to small businesses. In comparison, the area demographic profile shows that 87 percent of businesses are considered to be small businesses. Given the variance between the bank's small loan originations and the area demographics, the bank has room for improvement in this area.

COMMERCIAL LOANS DISTRIBUTION TO VARIOUS BUSINESS SIZES TABLE 3			
Gross Revenues	Number of Loans in Sample	Percent of Sample	Percent of Businesses in the Assessment Area
Less than \$1 million	12	43	87
Greater than \$1 million	16	57	13
Sample Totals	28	100	100

***Geographic Distribution of Loans:***

- **The geographic distribution of loans throughout the assessment area meets the standards for satisfactory performance.**

As illustrated in *Table 4*, the bank originated loans in proportion with the demographic make up of the assessment area. Eight percent of the number and dollar amount of loans were made in low-income census tracts, while 21 percent of the number and 17 percent of the dollar amount was made in moderate-income census tracts. This is comparable to the distribution of census tracts in the assessment area by income level.

DISTRIBUTION OF LOAN ORIGINATIONS IN THE ASSESSMENT AREA JANUARY 1, 1998, TO DECEMBER 31, 1998 TABLE 4					
Census Tract Type	Number of Loans	Percent of Loans by Number	Dollar Amount of Loans \$(000's)	Percent of Loans by Dollar Amount	Percent of Loans in Census Tracts by Income Level
Low Income	86	8	5,016	8	9
Moderate Income	243	21	11,243	17	3
Middle Income	415	36	22,526	35	33
Upper Income	405	35	26,480	40	4
Income Not Available	0	0	0	0	1
Total	1,149	100	65,265	100	100

***Loan-to-Deposit Ratio:***

- **WSB’s loan-to-deposit ratio exceeds the standards for satisfactory performance given the bank’s size, financial condition, and operating environment.**

WSB’s quarterly average loan-to-deposit ratio for the 12 quarters ended December 31, 1998, was 82 percent. This is well above the quarterly average of 64 percent for five similar banks in WSB’s assessment area. The banks were similar to WSB in target market and asset size. The average loan-to-deposit ratios for the five banks ranged from 50 percent to 77 percent.

WSB’s loan-to-deposit ratio does not fully reflect the bank’s lending activities. In addition to the loans retained, WSB also originates and sells a substantial volume of SBA loans. In 1998, the bank originated and sold \$11 million in SBA loans on the secondary market.

***Lending in the Assessment Area:***

- **The bank’s record of loan originations within the assessment area meets the standards for satisfactory performance.**

As illustrated in *Table 5*, 78 percent of the dollar amount and 71 percent of the number of loans were made inside the bank’s assessment area. The bank provided this information. We tested the information for accuracy and found it to be accurate. This conclusion is reasonable given the bank’s resources and the large size of the assessment area. While there are gaps of geographies within the assessment area with no loans, the gaps contain low-, moderate-, middle-, and upper-income areas alike. None are predominate. The gaps are due primarily to the large size of the assessment area and the relatively small size of the bank.

<b>LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA</b>				
<b>January 1, 1998, to December 31, 1998</b>				
<b>Table 5</b>				
<b>Location</b>	<b>Number of Loans</b>	<b>Percent of Loans by Number</b>	<b>Dollar Amount of Loans \$(000,s)</b>	<b>Percent of Loans by Dollar Amount</b>
In Area	1,149	71	65,265	78
Out of Area	473	29	18,821	22
Totals	1,622	100	84,086	100

***Written Complaints:***

WSB has not received any written complaints since the prior evaluation about its performance in helping to meet the credit needs within its assessment area.

***Record of Compliance with Anti-discrimination Laws:***

Our fair lending examination did not find any evidence of discrimination or practices intended to discourage applicants from applying for credit. The examination concluded that the bank is in compliance with the requirements of the Equal Credit Opportunity Act.

***Other Information Considered:***

**Community Development Lending**

WSB established a Community Development Corporation (CDC) in 1997 to provide financing for senior citizen affordable housing projects. This financing provides bridge loans for the development of qualified projects until the long-term permanent financing (usually bonds) can be issued. The bank has allocated a significant portion of its resources to this venture. At March 31, 1999, the bank had eight loans to affordable housing projects totaling \$12 million (12 percent of gross loans). Each of the senior citizen housing projects has income restrictions that require most of the units to be occupied by low- and moderate-income tenants. The eight current projects provide 898 affordable housing units to senior citizens.

Given the rapidly growing population of senior citizens in the assessment area, the need for this type of affordable housing is strong. The CDC works closely with the State of California and local municipalities to structure the financing for these projects. The bank's holding company has a subsidiary that manages the properties financed by the CDC. The CDC helped establish a nonprofit entity that is focused on providing life enrichment services to the senior citizens at the projects the bank finances.

The community development program is innovative for a bank of this size, and their efforts to establish and operate the CDC are commendable.