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

SMALL BANK

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PUBLIC DISCLOSURE

DECEMBER 13, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**NEIGHBORHOOD NATIONAL BANK
Charter Number 22770**

**3511 National Avenue
San Diego, California 92113**

<p>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.</p>

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.

Low-Income - Income levels that are less than 50% of the median family income (MFI).

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

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

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

Small Business Loans - Loans with an original amount of \$1 million or less.

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 **NEIGHBORHOOD NATIONAL BANK** prepared by The Office of the Comptroller of the Currency (OCC), the institution's supervisory agency, as of **December 13, 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 "**Outstanding.**"

- Community development (CD) lending is excellent. In the short time the bank has been open, it has funded several CD loans to help revitalize its community. This included funding several loans in specifically designated enterprise zones. CD lending represents a substantial amount of the bank's capital.
- CD services are good and enhance the bank's record of meeting the needs of its community. Members of the bank's senior management are active in providing financial and technical assistance to a number of organizations, which are targeted to help low- and moderate-income individuals, and to revitalize low- and moderate- income geographies.
- The bank's loan-to-deposit ratio exceeds the standard for satisfactory performance.
- The distribution of loans reflects good dispersion throughout the bank's assessment area (AA). The bank has done an especially good job of serving the low-income census tracts. Lending patterns compare favorably with the demographics of the area.
- The distribution of loans reflects good penetration among individuals of different income levels and businesses of different sizes, compared to the demographics of the AA. The distribution of consumer loans made to low- and moderate-income borrowers compares favorably with the area's demographics.
- Lending in the AA meets the standard for satisfactory performance.

DESCRIPTION OF INSTITUTION

Neighborhood National Bank (NNB) is a community bank established in September 1997. It is specifically designated as a Community Development Financial Institution (CDFI). The bank's primary mission is to help promote community development (CD) in low- and moderate-income communities and revitalize them by providing convenient access to loans and other financial services.

The bank was chartered specifically to address the needs of an under-served section of the city of San Diego. Its formation was in response to a study by the San Diego City-County Reinvestment Task Force. This study revealed that the area the bank now serves lacked access to financial institutions and had suffered from divestment of business and other services. This area is predominately made-up of enterprise zones, which have been specifically targeted because they need revitalization and redevelopment.

NNB is unique in that it is one of the smallest banks in the county and is the only CDFI. The bank competes to some extent with other community banks in San Diego County, but NNB's CD focus differs from any of its competitors.

The main office is located in the southeast area of the city of San Diego, in a moderate-income census tract. In November 1998 the bank opened a second branch in a community known as Paradise Valley, which is in a middle-income census tract. NNB operates an automated teller machine (ATM) at both branches.

NNB is 95% owned by Neighborhood Bancorp, a one-bank holding company. Other subsidiaries of the holding company are Neighborhood Opportunities Corporation and Neighborhood Capital Advisors.

This is the bank's first CRA examination since it opened in September 1997. There are no legal or financial impediments to the bank's ability to meet the credit needs of its AA.

As of September 30, 1999, the bank had total assets of \$27.7 million, loans of \$20.3 million, and deposits of \$20.3 million. As a new bank, NNB has relied heavily on purchasing loans in order to grow the bank's assets. This was necessary for the bank's survival. About 79% of the bank's loans were purchased from other financial institutions. Of the loans the bank originated, commercial loans make up about 59%, mortgage loans 21%, real estate loans 17%, and consumer loans 3%.

The following chart reflects NNB's loan portfolio by major product type as of September 30, 1999.

Loans by Major Product Type (Includes Originated and Purchased Loans)		
Loan Type	Dollar Volume (millions)	Percent of Total Loans
Mortgage	\$12.6	62%
Commercial	\$6.7	33%
Real Estate	\$0.7	4%
Consumer	\$0.2	1%
Total Loans	\$20.2	100%

DESCRIPTION OF ASSESSMENT AREA

NNB's AA includes the communities of Southeast San Diego, San Diego, Mid-City, Central San Diego, and National City. The AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The total population of the AA was 479,383 in the 1990 census. All of the census tracts are within the San Diego County MSA. Out of the 92 census tracts, 62 (or 65%) are CDFI qualified tracts. These tracts have been specifically targeted because they need revitalization and redevelopment.

Within the AA, about 17% of the families are below the poverty level. According to the Department of Housing and Urban Development (HUD), the 1999 median income for the assessment area is \$52,500 and the 1990 median housing value was \$143,447. In the AA, 35% of the housing units are owner-occupied. However, within low- and moderate-income census tracts, only 13% and 27%, respectively, of the housing units are owner-occupied.

The following chart summarizes the income levels of the tracts in the bank's AA.

Census Tract Demographic Data				
Census Tract Income Level	Number of Tracts by Type	Percent of Tracts by Type	Percent of Families in Tracts	Percent of Businesses in Tracts
Low	22	24%	26%	19%
Moderate	32	35%	34%	41%
Middle	33	36%	38%	31%
Upper	4	4%	2%	9%
N/A	1	1%	0%	0%
Total	92	100%	100%	100%

We also considered information from four community contacts to determine the area's credit needs. According to these contacts, community revitalization and development, as well as affordable housing are the primary needs in the AA. In addition, there continues to be a need for small business loans with flexible underwriting, especially micro-loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Our conclusions are based on the lending activity from the date the bank opened on September 22, 1997, through December 13, 1999. We used loan data provided by the bank that we tested for accuracy. In addition to the general evaluation factors for evaluating small community banks, we considered the bank's CD lending, CD investments, and CD services since these areas are integral to the bank's operations and its focus as a CDFI.

COMMUNITY DEVELOPMENT LOANS

The bank's CD lending is excellent. In the relatively short time the bank has been open, it has funded sixteen CD loans, totaling \$4.1 million. This represents about 94% of the bank's Tier 1 capital. The majority of these loans were for affordable housing and community redevelopment, which are identified credit needs in the AA. Other CD lending was targeted towards the

educational and service needs of low- and moderate-income individuals and geographies, which are also identified needs of the AA. These loans are also included in the loan totals discussed in the following pages of this performance evaluation. In 1999, the bank also received an award from the Department of the Treasury, under the Bank Enterprise Award Program, for increasing its loans by about \$3.8 million in designated enterprise zones. Below are some examples of the larger CD loans the bank has made.

- The bank funded \$990,000 of a \$1 million line of credit to a non-profit organization. This organization's goal is to help revitalize a low-income area within the AA and create job opportunities for its residents. The organization is transforming an old factory/warehouse into a much-needed shopping center that will include a major grocery store, several small businesses, and a youth center.
- The bank funded a \$593,000 loan to acquire and rehabilitate a multi-family housing unit in a low-income census tract within the AA. The rents charged are affordable compared to the average rental rate for the average apartment in San Diego County. Affordable housing is an identified need in the AA.
- The bank fully funded a \$240,000 line of credit to rehabilitate a retail property and funded a \$200,000 loan to rehabilitate an apartment building. Both properties are in low-income census tracts within the AA. The rents charged are affordable compared to the average rental rate for the average apartment in San Diego County. Both community redevelopment and affordable housing are identified needs in the AA.
- The bank funded a \$251,000 loan to a non-profit organization to purchase a day-care center in a low-income census tract within the AA. The day care center will provide much-needed childcare for low- and moderate-income persons, which will enable them to maintain jobs.
- The bank fully funded a \$500,000 line of credit to a non-profit organization located in a moderate-income area. This organization provides educational services. The funds were used at a school, which primarily serves low- and moderate-income families within the AA.
- The bank made a \$455,000 loan to a non-profit organization, whose mission is to increase, preserve, and improve affordable housing opportunities for low- and moderate-income families. These funds were used to purchase and rehabilitate a multi-housing unit in a moderate-income area. The rents charged are affordable compared to the average rental rate for the average apartment in San Diego County.

COMMUNITY DEVELOPMENT SERVICES

The bank's participation in CD services is good and enhances its record of serving the needs of its community. Members of the bank's senior management use their financial and banking expertise to provide technical assistance to twelve different organizations, which help low- and moderate-income individuals and revitalize low- and moderate-income geographies. Below are some examples of activities bank management participates in.

- The Chief Executive Officer (CEO) provides technical assistance and financial expertise by serving on a committee that assists in the development and rehabilitation of multi-family housing within a targeted low- and moderate-income section of the AA. Affordable housing is an identified credit need for the many low- and moderate-income families in the AA.
- The CEO serves on a board and provides technical assistance and financial expertise to an organization that assisted in developing a specifically identified enterprise zone within the AA. The organization is encouraging businesses to relocate into this targeted area to help revitalize it.
- The Chief Financial Officer (CFO) serves on the finance committee and provides technical assistance and banking expertise to an agency that provides home loan counseling and financial literacy services to low- and moderate-income families within the AA. This helps low- and moderate-income individuals obtain home loans as well as other types of loans.
- The CFO serves on the board of an organization that helps high school students in preparing for careers in finance. The school primarily has students from low- and moderate-income families. This helps to meet the educational needs of low- and moderate-income individuals, which assists them in finding jobs.
- A senior officer recently joined the board and provides technical assistance to an agency that provides home loan counseling to low- and moderate-income families. This helps low- and moderate-income individuals obtain home loans.
- A senior officer serves on the board and provides financial and banking expertise to an agency whose mission is to identify affordable housing opportunities in San Diego County, which includes the bank's AA. The agency works with low- and moderate-income families to help them qualify for homes through shared equity programs. The agency also provides home mortgage counseling for first-time homebuyers, many of which are from low- and moderate-income families.

COMMUNITY DEVELOPMENT INVESTMENTS

The bank's CD investments are satisfactory and enhance its record of meeting the credit needs of its community. The bank made \$5,000 in grants targeted to the educational needs of low- and moderate-income borrowers and geographies.

LOAN-TO-DEPOSIT RATIO

NNB's loan-to-deposit (LTD) ratio exceeds the standard for satisfactory performance. The bank's average LTD ratio for the eight quarters ended September 30, 1999, was 89%. This compares favorably with the average LTD ratio for the four most similarly situated banks in San Diego County, which was only 69% for the same period. For the purposes of this examination, similarly situated banks are banks of similar asset size located within the San Diego County MSA.

LENDING IN ASSESSMENT AREA

NNB's lending in the AA meets the standard for satisfactory performance. During this review period, 67% (by number) and 56% (by dollar) of total loans were within the AA. Refer to the table below for details. As a new bank, NNB is fairly unique compared with other, more established financial institutions in that it heavily relied on purchasing loans for its survival.

Lending Within the Assessment Area (Includes Originated and Purchased Loans)				
	Number of Loans	Percent of Loans by Number	Dollar Volume of Loans (000)	Percent of Loans by Dollar
Loans in the Assessment Area	143	67%	\$12,971	56%
Loans Out of the Area	72	33%	\$10,036	44%
Total Loans	215	100%	\$23,007	100%

GEOGRAPHIC DISTRIBUTION

NNB's distribution of loans reflects good dispersion throughout the AA. The bank has done an especially good job of serving the low-income census tracts for both consumer and business loans. Lending patterns compare favorably to the demographics of the area and reflect positively on the bank's ability to serve low- and moderate-income geographies. NNB has made a significant number of loans to individuals in low-income geographies that have historically lacked access to financial services. Most of the consumer loan originations were for automobiles, although the bank made some installment and mortgage loans. All of the consumer loans purchased were home mortgages. The bank's lending has also helped to revitalize low-income areas and specifically designated enterprise zones, which have needed redevelopment for many years. Borrowers in low-income tracts received 41% (by number) and 38% (by dollar) of the consumer loans originated or purchased by the bank. Business borrowers in low-income census tracts received 48% (by number) and 61% (by dollar) of the bank's commercial loans. Please refer to the following two tables for specific information.

Geographic Distribution of Consumer Loans Within the Assessment Area (Includes Originated and Purchased Loans)					
Census Tracts by Income Level	Percent Census Tracts by Income Level	Number of Loans	Percent of Loans by Number	Dollar Volume of Loans (000)	Percent of Loans by Dollar
Low	24%	44	41%	\$3,782	38%
Moderate	35%	35	32%	\$3,353	34%
Middle	36%	28	26%	\$2,729	28%
Upper	4%	1	1%	\$55	0%
N/A	1%	0	0%	\$0	0%
Total	100%	108	100%	\$9,919	100%

Geographic Distribution of Business Loans Within the Assessment Area (Originated Loans Only)					
Census Tracts by Income Level	Percent of Businesses in Tracts	Number of Loans	Percent of Loans by Number	Dollar Volume of Loans (000)	Percent of Loans by Dollar
Low	19%	12	48%	\$1,862	61%
Moderate	42%	6	24%	\$256	8%
Middle	30%	7	28%	\$933	31%
Upper	9%	0	0%	\$0	0%
N/A	0%	0	0%	\$0	0%
Total	100%	25	100%	\$3,051	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND BUSINESSES OF DIFFERENT SIZES

The bank's loan distribution reflects good penetration among individuals of different income levels and businesses of different sizes, given the demographics of the AA.

The distribution of consumer loans made to low- and moderate-income borrowers is favorable compared to the demographics of the AA. The bank has done an especially good job of serving low-income borrowers who have historically been under-served. Low-income borrowers received 50% (by number) and moderate-income borrowers received 38% (by number) of consumer loans originated by the bank. We placed emphasis on the number of loans in the distribution since consumer loans made to lower income individuals are typically smaller in size. Refer to the following table for specific information.

Distribution of Consumer Loans to Borrowers of Different Incomes Within the Assessment Area (Originated Loans Only)					
Borrower Income Level	Percent of Families by Income Level	Number of Loans	Percent of Loans by Number	Dollar Volume of Loans (000)	Percent of Loans by Dollar
Low	35%	17	50%	\$299	31%
Moderate	22%	13	38%	\$266	27%
Middle	21%	2	6%	\$272	28%
Upper	21%	2	6%	\$131	14%
Total	100%	34	100%	\$968	100%

The bank's business loans are reasonably distributed among businesses of different sizes based on our analysis of the bank's data, which we tested for accuracy. NNB originated 76% (by number) and 74% (by dollar) of loans to businesses with revenues of less than \$1 million. Although this is slightly less than the 91% of businesses in the AA that reported revenue under \$1 million, this is largely the result of the bank making CD loans to some larger businesses to help revitalize the community. Refer to the following table for specific information.

Distribution of Business Loans by Revenues Within the Assessment Area (Originated Loans Only)				
Revenues	Number of Loans	Percent of Loans by Number	Dollar Volume of Loans (000)	Percent of Loans by Dollar
< \$100,000	7	24%	\$416	11%
> \$100,000 and < \$250,000	8	28%	\$822	22%
> \$250,000 and < \$500,000	1	3%	\$150	4%
> \$500,000 and < \$1,000,000	6	21%	\$1,390	37%
> \$1,000,000	7	24%	\$979	26%
Total	29	100%	\$3,757	100%

RESPONSE TO WRITTEN COMPLAINTS

NNB has not received any written complaints associated with its performance under the Community Reinvestment Act.

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATION LAWS

The OCC conducted a technical review of fair lending laws and regulations concurrently with this CRA examination. We used the terms approach to review auto loans since they were the largest consumer loan product. A comparative file test was not performed because there were too few consumer loan applications during the review period for a meaningful analysis. Based on the technical review, however, we found no evidence of discriminatory practices.