

Western District

PUBLIC DISCLOSURE

November 29, 1999

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

CALIFORNIA NATIONAL BANK
Charter Number 23543

**9916 Santa Monica Boulevard
Beverly Hills, California 90212**

**Comptroller of the Currency
Southern California- North Field Office
550 North Brand Boulevard, Suite 500
Glendale, California 91203-1900**

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.

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 **California National Bank (CNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **November 29, 1999**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 C.F.R. Part 25.*

We used small bank examination procedures to perform this CRA evaluation, based on current regulatory guidance. Large bank criteria covers all banks with total assets over \$250 million as of December 31, two years before the start of the examination. CNB's total assets of were less than \$250 million on December 31, 1997, because the bank began operations on January 2, 1998.

INSTITUTION'S CRA RATING: This institution is rated "Satisfactory." The factors supporting the bank's overall rating include the following:

- A majority of the loans originated and purchased are within the assessment area;
- The loan-to-deposit ratio is high;
- A reasonable distribution of commercial real estate and multi-family real estate loans are within the various census tracts;
- There are a reasonable amount of loans on commercial real estate with revenue below \$1 million; and,
- The bank financed a large percentage of multi-family residential units with affordable rental prices to LMI families.

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DEFINITIONS OF TERMS APPLIED IN THIS PUBLIC DISCLOSURE

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

Low - Income Geography:

For a census tract: The median *family* income is less than 50 percent of the median *family* income for the MSA in which it is located.

Moderate - Income Geography:

For a census tract: The median *family* income is equal to or greater than 50 percent and less than 80 percent of the median *family* income for the MSA in which it is located.

Middle - Income Geography:

For a census tract: The median *family* income is equal to or greater than 80 percent and less than 120 percent of the median *family* income for the MSA in which it is located.

Upper - Income Geography:

For a census tract: The median *family* income is equal to or greater than 120 percent of the median *family* income for the MSA in which it is located.

LMI:

Abbreviation for “low- and moderate-income”. Characterizes geographies and families.

Median Family Income:

As determined by U.S. Census Bureau data in 1990.

1999 HUD Median Family Income:

Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1999.

Loan Originations:

The number and full credit amount of loans and lines of credit at the time they were originated during the review period, even if they subsequently have been paid or matured. Includes participations by the bank. Extensions or modifications are excluded, except for increased availability.

MSA:

Metropolitan Statistical Area.

Section 8; Affordable Housing:

Grants available to subsidize rental payments on affordable housing, estimated at 30 percent of the LMI median family income.

DESCRIPTION OF INSTITUTION:

California National Bank (CNB) is a community bank that began operations on January 2, 1998. CNB is a wholly owned subsidiary of the FBOP Corporation (FBOP). FBOP is a multi-bank holding company, headquartered in Oakpark, Illinois, with over \$5.0 billion in assets that operates ten other community banks throughout the country. We did not consider any transactions of affiliates during our evaluation of CNB's performance.

CNB's head office is in Beverly Hills, California. In addition to the main office, CNB operates five branches located throughout the Los Angeles County, in Century City, Brentwood, Encino, Pasadena, and Torrance. CNB opened its only ATM at the Encino branch in August 1999.

In July 1996, FBOP and its subsidiary, Regency Savings Bank (Regency), located in Naperville, Illinois, acquired Torrance Bank, with one office in Torrance. Later, in November 1996, FBOP and Regency acquired the assets and liabilities of Topa Savings and Topa Thrift and Loan. All three acquired institutions were individually precluded from originating new loans due to their weak financial condition. However, as a division of Regency, the former Torrance Bank, Topa Savings, and Topa Thrift operated six branches in the Los Angeles area and began originating single-family residence mortgage loans.

The Office of the Comptroller of the Currency (OCC) approved a new national bank charter for CNB on January 2, 1998. Regency's six branches and related assets and liabilities were subsequently sold to CNB, under a Purchase and Assumption Agreement. CNB opened with \$689 million in total assets, total loans of \$511 million, and deposits of \$632 million.

Upon opening, CNB was not immediately positioned to originate new loans because there was no lending infrastructure in place. CNB management hired a senior lending officer and a loan originator in August 1998 and January 1999, respectively. CNB's loan originations have increased dramatically since this time.

The following table shows the increase in loan originations from December 1998 to September 1999:

Loan Origination Trend			
Type of Loan	December 1998 Balance \$ (000)	September 1999 Balance \$ (000)	% Change
Singe-family Real Estate	55,227.2	72,327.9	31
Construction and Development	11,701.6	14,781.9	26
Multi-family Real Estate	2,282.5	29,205.2	1,280
Commercial Real Estate	3,263.3	40,789.0	1,250
Business Asset Loans	0	136.6	100
Consumer Loans	675.6	506.5	(25)*
Total Loans	\$73,150.3	\$157,747.1	209%

Source: Bank generated reports

* The consumer loan balance declined because loan payoffs exceeded loan originations.

In addition to originating new loans, and to generate additional positive bank earnings during the start-up period, CNB management purchased more loans from Regency to replace loans that had paid off. As of September 30, 1999, CNB reported total assets of \$830 million, loans of \$634 million, and deposits of \$636 million.

The following table shows total loans outstanding as of September 30, 1999:

Loans Outstanding at September 30, 1999		
Loan Type	\$ (000)	%
Single-family Real Estate	135,796.4	22
Construction and Development	14,781.9	2
Multi-family Real Estate	129,811.6	20
Commercial Real Estate	353,018.1	56
Business Asset Loans	136.6	0*
Consumer Loans	525.0	0*
Total	\$634,069.6	100%

Source: Bank generated reports

* Less than 0.5%

CNB focuses on originating multi-family real estate loans, commercial real estate loans and large single-family residence (SFR) mortgages. The SFR loans are jumbo loans directed toward high net worth individuals and considered “estate loans.” Loan brokers refer the estate loans requests to the bank.

Since January 2, 1998, CNB originated and purchased thirty-five multi-family project loans located in LMI census tracts that provided over 420 apartment units to families with LMI family incomes. In addition, CNB has started lending to commercial businesses, secured by business assets. CNB offers traditional commercial and consumer checking, savings, money market, and certificate of deposit accounts.

There are no legal or financial circumstances that impede CNB’s ability to help meet the credit needs in its assessment area. Banking competition in the area is fierce, with a number of community, regional and large banks, and other financial institutions located throughout the assessment area.

This is CNB’s first CRA evaluation since it opened.

DESCRIPTION OF ASSESSMENT AREA

Geographic Description

CNB's assessment area meets the requirements of the regulation and does not arbitrarily exclude LMI geographies. Los Angeles (LA) County has been designated a Metropolitan Statistical Area (MSA).

CNB's assessment area does not include the entire LA MSA. The assessment area includes the cities and communities around each of the six bank branches, including the San Fernando Valley, the west San Gabriel Valley, West Los Angeles and beach areas, Beverly Hills, Hollywood, downtown Los Angeles, the South Bay area, and portions of Long Beach. Other areas of the MSA not included in the assessment area are farther from the branches and are not served by the bank.

Within the bank's assessment area, there are several incorporated cities and a number of unincorporated communities. The total population of the assessment area was 5.8 million as of the 1990 census, compared to 8.9 million people in the entire LA County. The California State Department of Finance estimated the 1998 LA County population at 9.6 million. Population growth slowed to 7.0 percent in the 1990's, compared to a 20 percent growth rate in the 1980's. However, LA County is currently the largest and most rapidly growing metropolitan region in the fastest growing state in the country.

The assessment area consists of 1,141 contiguous census tracts within the LA MSA. Of the 1,141 census tracts, 134 are designated as low-income and 268 as moderate-income. There are 338 middle- and 391 upper-income census tracts. Additionally, there are ten census tracts for which the 1990 census did not report income information.

The following table shows the number of census tracts in each income category and the population within each category:

Census Tracts & Population within Assessment Area				
Income Category of Census Tract	# of Census Tracts	% of all Census Tracts	1990 Population	% of Population within Tract Income Category
Low	134	12	739,570	13
Moderate	268	23	1,562,411	27
Middle	338	30	1,751,055	30
Upper	391	34	1,700,224	30
N/A	10	1	13,969	0*
Total	1,141	100%	5,767,229	100%

Source: 1990 Census Bureau data

* Less than 0.5%

Demographics and Credit Needs

According to the 1990 Census data, the median family income was \$39,035. HUD updated the median family income to \$51,300 in 1999. The census median housing value for the assessment area was \$264,718.

LMI families live throughout the assessment area, within various income census tracts. The following table illustrates the distribution of families by family income, based on 1990 census data:

Families within Current Assessment Area (Distributed by Family Income)			
Income Census Tracts	% of Total Families in Income Census Tracts	Assessment Area	
		% of Low Income Families	% of Moderate Income Families
Low	11	26	14
Moderate	25	38	35
Middle	30	25	33
Upper	34	11	18
Total	100%	100%	100%

Source: 1990 Census Bureau Data

The housing market cannot keep pace with the growth in population. The shortfall between supply and demand has inflated rental rates and home prices. The majority of new housing available for first-time homebuyers is located in outlying areas of LA County, or in neighboring counties where the price of land is less expensive. As a result, more multi-family housing units are being constructed than single-family houses. Between 1977 and 1993, the number of building permits issued for multi-family units were six-times greater than the number of permits for single-family units. A recent 1999 survey showed the average gross rent for LA County was \$983.

In the late 1980's, structural changes in the economy and other events combined to undermine the general prosperity in LA County. Defense spending cuts and other Federal decisions caused huge reductions in aerospace and defense manufacturing jobs. Businesses were lured away by other states with tax concessions and more favorable business environments. The civil disturbances in 1992 and the 1994 Northridge earthquake further aggravated business and community problems. Weaknesses remaining in the local economy include downsizing in the defense industry, high business costs, low housing affordability, and large and growing income disparities.

The overall economy has rebounded in the past few years. The economy of LA County continues to expand at a steady rate. Job growth in the area matched the national average in early 1999, and is the county's strongest job growth in more than ten years. The continued lowering of the unemployment rate is evidence of this recovery. The California Employment

Development Department reported the unemployment rate of 5.6 percent in October 1999, compared to 6.8 percent in January 1999. However, unemployment in LA County remains above the state and national rates. The county's long-term outlook is good and is supported by continued growth in entertainment, tourism, international trade, and residential and commercial real estate construction.

According to recent Dun and Bradstreet statistics, 240,279 businesses and farms are located within CNB's assessment area. Of those businesses and farms that reported revenues, 75 percent have annual revenues of \$1 million or less. Approximately 79 percent employ less than ten employees. The LA Economic Development Corporation lists the major industries in LA County by employment size are business and professional management, health services, tourism, international trade, technology, motion picture/TV production, and financial services.

Community Contacts

During this examination, we considered information received from four prior community contacts and one new contact. Meetings between federal regulatory agencies and community groups within the LA County have determined the primary credit needs to be affordable housing and home purchase financing.

The one contact made during this examination was a non-profit organization that serves LA County by offering services to assist first-time homebuyers with down payment and closing cost assistance. This contact also identified affordable housing as a primary credit need in the assessment area.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Scope of Review

The review period for this evaluation is January 2, 1998 to October 31, 1999. We used bank-generated information that we tested for accuracy. The bank's primary lending focus is multi-family real estate loans, commercial real estate loans, and large single-family residence mortgages (estate loans).

Lending within the Assessment Area

- **The proportion of CNB's lending within its assessment area is reasonable and meets the standards for satisfactory performance, based on the bank's age and business strategy.**

We reviewed and validated a sample (29 percent) of the bank's census tract reporting data. Based on our review we were able to use all loans originated and purchased, and found 70 percent of the number and 55 percent of the dollar volume were within the assessment area. This is shown in the following table:

Lending Inside and Outside the Assessment Area Includes All Loan Originations and Purchases				
	# of Loans in Assessment Area	% of # of Loans in Assessment Area	\$(000) of Loans in Assessment Area	% of \$ of Loans in Assessment Area
Inside Assessment Area	198	70	231,503	55
Outside Assessment Area	84	30	193,269	45
Total	282	100%	\$424,772	100%

Source: Bank generated reports

The percentage of the number of loans originated and purchased within the assessment area is reasonable. The percentage of dollar volume is low at 55 percent. However, during the first year of operations in 1998, management's business strategy was to increase profits. Because CNB did not have a lending staff in place, to achieve this goal, CNB purchased 28 loans totaling \$88 million to enhance the bank's income. Of the 28 loans, ten loans totaling \$67 million, or 77 percent, were located outside the assessment area.

In 1999, while management continued to emphasize positive earnings, CNB management made a concerted effort to originate and purchase loans within the bank's assessment area. CNB originated and purchased 153 loans totaling \$145 million. Of these loans, 129 loans totaling \$113 million, or 78 percent, were located inside the assessment area.

Loan-to-Deposit Ratio

- **CNB's loan-to-deposit ratio exceeds the standards for satisfactory performance, given the bank's size, age, and assessment area credit needs.**

We evaluated the bank's loan-to-deposit ratio for seven quarters ending September 30, 1999, when the ratio was 98 percent. During this period, the bank's average loan-to-deposit ratio was also 98 percent. The loan-to-deposit ratio peaked at 111 percent in December 1998, after the bank purchased \$88 million in loans. We analyzed only seven quarters because the bank's first full quarter of operations was March 1998.

CNB is a unique national bank, in that the loan portfolio is 98 percent real estate secured loans. This is reasonable given that the bank converted from two Thrift and Loan institutions, which typically make only real estate loans and have high loan-to-deposit ratios. The loan-to-deposit ratio of a similarly situated thrift and loan association, headquartered in the LA area with over \$1 billion in assets at September 30, 1999, was 105 percent.

There are no commercial banks similar to CNB in the LA area when comparing both asset size and product line. Thus, we could not compare CNB's loan-to-deposit ratio to other similar financial institutions. Five other national banks are headquartered in the Beverly Hills and the West Los Angeles areas. These banks provide commercial business loans and consumer loans, in addition to real estate secured loans. These institutions had a seven-quarter average loan-to-deposit ratio of 55 percent.

Geographic Distribution of Loans

- **The geographic distribution of loans originated and purchased during the evaluation period meets the standards for satisfactory performance.**

Commercial Real Estate:

CNB purchased loans in 1998 and 1999. These loans represent 70 percent of the commercial real estate loans that are currently outstanding. Of the 17 loans purchased in 1998 and located within the assessment area, only two loans were outstanding as of October 31, 1999. Thus, we did not use the 1998 purchased commercial real estate loan data in this analysis because the loan files with the pertinent information were no longer available.

The following table shows the percentage of census tracts within the assessment area by income category; the distribution of businesses within the assessment area by census tract; and the distribution of commercial real estate loans originated and purchased in 1999 by census tract:

Demographics		Commercial Real Estate Loan Originations and Purchases 01/01/99-10/31/99				
Census Tracts		% of Total Businesses in Tract	# of Loans	% of Total	\$ of Loans (000's)	% of Total
Low Income	12%	11	2	4	3,567	5
Moderate Income	23%	18	9	20	14,084	21
Middle Income	30%	31	16	35	14,756	22
Upper Income	34%	40	19	41	35,001	52
No Data	1%	0	0	0	0	0
Total	100%	100%	46	100%	\$67,408	100%

Source: 1990 Census Bureau Data, 1999 Dun & Bradstreet Business Demographic Data, and bank generated reports

The bank's commercial real estate loans are reasonably distributed compared to demographic information and based on the bank's age and competition. We did not identify any gaps in lending to various geographies. Two loans, or four percent by number and five percent by dollar, were located in low-income census tracts. These percentages are low compared to the 11 percent of total businesses in the low-income census tracts, however, the majority (97 percent) of low-income census tracts are not in close proximity to the branches.

Loans made within the moderate-income census tracts are more reasonably distributed compared to demographic data. Nine loans, or 20 percent by number and 21 percent by dollar, compare favorably to the 18 percent of businesses in the moderate-income census tracts.

Residential Real Estate:

As mentioned in the **Demographic and Credit Needs** section, there is a need for additional housing in LA County. Multi-family housing units are one way to increase housing availability. CNB met this need by increasing its lending to multi-family projects by 1,280 percent since December 1998.

The following table shows the number and dollar amount of loans made for multi-family housing projects, and the income census tracts in which the projects are located:

Multi-Family Loan Originations and Purchases 01/02/98-10/31/99					
Demographics of Census Tracts		# of Loans	% of Total #	\$ of Loans (000's)	% of Total \$
Low Income	12%	15	18	7,002	14
Moderate Income	23%	21	25	9,294	19
Middle Income	30%	34	40	25,901	51
Upper Income	34%	14	17	8,041	16
N/A	1%	0*	0*	0*	0*
Total	100%	84	100%	\$50,238	100%

Source: 1990 Census Bureau Data, 1999 Dun & Bradstreet Business Demographic Data, and bank generated reports
* Less than 0.5%.

Of the total number of loans made for multi-family projects, 43 percent were located in LMI census tracts. This represents 33 percent by dollar amount, which compares favorably to the LMI census tract composition of 35 percent of total census tracts.

CNB did not originate or purchase any SFR loans in LMI geographies. CNB originated and refinanced a total of 46 SFR (jumbo loans) within their assessment area and were all located in upper income census tracts. The multi-family lending in LMI census tracts as described above mitigates this factor, as CNB's penetration exceeds the demographic LMI census tract percentage.

In addition, CNB has made an investment in excess of \$2 million. Sixty-six percent of the proceeds were used to finance SFR within the LMI census tracts

Lending to Businesses of Different Sizes and Individuals of Different Incomes

- **CNB's lending to businesses of different sizes and individuals of different incomes meets the standards of satisfactory performance.**

Commercial Real Estate:

Lending opportunities are strong, based on the Dun & Bradstreet data for the assessment area. There are over 240,000 businesses within the area, including 1,795 farm and over 238,000 non-farm businesses. Of those farm and businesses with reported revenues, 75 percent have annual revenue of \$1 million or less. Of those with \$1 million or less, 66 percent have revenues of less than \$500 thousand.

We verified data on the revenue the CNB's business borrowers by sampling 22 (48 percent) of the commercial real estate originations and purchases in the assessment area. We then analyzed

all of the commercial real estate loans that provided revenue information. The following table shows the distribution of business lending opportunities and CNB's lending performance:

Businesses of Different Sizes: Lending Opportunities and the Bank's Lending Performance within Assessment Area Commercial Real Estate Loans						
Properties with Reported Annual Income	Opportunities Per Dun & Bradstreet		Loans Originated (By Revenue of Property)			
	#	%	# of Loans	% of Loan #	\$ of Loans (000)	% of Total \$
Less than \$100,000	NA	NA	14	35	3,272	5
\$100,000 to \$249,999	NA	NA	3	8	3,072	4
\$250,000 to \$499,999	NA	NA	6	15	8,278	13
Subtotal - less than \$500,000	159,762	66%	23	58	14,622	22
\$500,000 to \$999,999	19,855	8%	7	17	19,355	30
Subtotal - less than \$1,000,000	179,617	75%	30	75%	\$33,977	52%
Greater than \$1,000,000	27,127	11%	10	25	30,921	48
Total with Reported Income	206,744	86%*	40**	100%	\$64,898	100%

Source: 1999 Dun & Bradstreet Business Demographic data and bank generated reports

* 33,535 businesses (14%) did not report income information to Dun & Bradstreet.

** Six commercial properties (13%) did not report income information to CNB.

Of the commercial real estate loans originated and purchased within CNB's assessment area, we found that 75 percent by number and 52 percent by dollar volume were to small commercial real estate properties, with revenues of \$1 million or less. While the penetration by number is adequate, the percent by dollar volume is low. However, this is reasonable given that larger loans are generally made on properties with revenue exceeding \$1 million.

Residential Real Estate:

CNB did not originate or purchase any SFR loans to individuals of LMI family incomes. To mitigate this lack of investment within their assessment area, and to help meet the credit needs of the community, CNB originated and purchased 35 multi-family project loans located in LMI census tracts within their assessment area. These projects provided a total of 522 apartment units, ranging from single units to 3-bedroom apartments.

The following table shows the multi-family rental income demographics for the LMI families in LA County, and the number of rental units CNB financed for LMI families:

Rental Prices of LMI Families and Number of Rental Units CNB Financed			
Annual Income		30% Section 8 Allowable for Housing	# Units Financed
Low	\$25,560	\$703 monthly	320
Moderate	\$41,039	\$1,129 monthly	101
Total	-	-	421

Source: 1999 Department of Housing and Urban Development data and Bank generated reports

Based on our review of these multi-family properties, over 80 percent of the apartments have rental rates that are considered LMI.

OTHER ITEMS

Response to Complaints

CNB and the OCC have not received any complaints about the bank's CRA performance.

Fair Lending Examination

Concurrent with the CRA examination, we performed a fair lending examination of the bank. Based on the findings of this review, we found no evidence that disparate treatment is being applied on a prohibited basis in CNB's underwriting of consumer loans. CNB complies with the provisions of anti-discrimination laws and regulation.

We reviewed a sample of 22 consumer loans, including single family residential mortgages and cash secured loans. We reviewed these loans to determine if prohibited basis information was used in lending decisions. In addition, we reviewed the loan policy to determine if any underwriting standards had the effect of disparate treatment.

Community Development

CNB management has been responsive to working with community organizations to help meet the community needs. Senior officers have volunteered a significant number of hours with several community development service organizations.