



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Borrego Springs Bank, National Association
Charter Number 23162**

**547 Palm Canyon Road
Borrego Springs, California 92004**

**Comptroller of the Currency
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

INSTITUTION'S CRA RATING.....	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF SAN DIEGO MSA.....	3
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

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 Borrego Springs Bank, N.A. as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 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 more than reasonable and compares very favorably with similarly situated peer banks.
- ❑ The geographic distribution of loans reflects excellent dispersion throughout the assessment area.
- ❑ The distribution of loans reflects adequate penetration among businesses of different sizes.

Since the last CRA examination, the bank did not originate or purchase a majority of the number and dollar volume of its loans within its defined assessment area, which is one of the criteria considered for CRA rating purposes. The bank operates a number of loan production offices outside its assessment area for the purpose of producing Small Business Administration loans. This business strategy negatively impacted the volume of loans originated within the assessment area. However, it should be especially noted that Borrego Springs Bank demonstrated superior commitment to community reinvestment through its exceptional level of innovative community development loans, investments, and services as detailed in this Performance Evaluation (refer to the "Conclusions about Performance Criteria" section of this Evaluation report).

DESCRIPTION OF INSTITUTION

Borrego Springs Bank, N.A., is a full service commercial bank headquartered in Borrego Springs, California. The Viejas Indians purchased Borrego Springs Bank in December 1996 making it the first and only bank in California to be majority owned by a Native American tribe. The majority owner is the Viejas Band of Kumeyaay Indians holding more than 70 percent of the outstanding stock.

Currently, there are three office locations: the Borrego Springs headquarters, and the La Mesa and Alpine branches. All three are situated in San Diego County. The headquarters is located in a moderate-income tract and the two branches are located in middle-income tracts. There are 18 Indian reservations within the bank's assessment area, and the Alpine branch is located on the Viejas Indian reservation.

The bank maintains an automatic teller machine (ATM) at each of its three branches. It also maintains a deposit-taking ATM at the Viejas Casino. The bank's Indian Gaming Services Division services an additional 29 non-deposit-taking ATMs in various Indian-owned casinos in three states: California, Arizona, and Wisconsin.

Since our last CRA examination, the bank opened the Alpine office in May 1998, and closed the Calipatria and Salton City offices in June 2001. Bank management ensured that the closing of the two branches did not adversely impact the respective rural communities that did not have other nearby sources of banking services. By a special arrangement between the bank and the Government Agency Federal Credit Union (GAFCU), the GAFCU took ownership and continued operating the two branches. This special effort on the part of the bank enabled these otherwise underserved rural communities to continue to receive financial services, while ensuring no loss of employment to the former bank employees.

Given the bank's business focus on Small Business Administration (SBA) loans, it maintains sixteen loan production offices (LPO) that produce SBA loans throughout the country. All the LPOs are outside the bank's assessment area except for one located at the La Mesa branch.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of December 31, 2002, the bank reported total assets of \$83 million, net loans of \$53 million (64 percent total assets), and total deposits of \$75 million. SBA loans comprise 78 percent of the portfolio.

Table 1 reflects the bank's loan portfolio by major product type as of December 31, 2002.

Table 1

LOAN PORTFOLIO COMPOSITION AS OF DECEMBER 31, 2002*		
Loan Product	Amount Outstanding (000's)	Percent (%) of Total Loans
SBA	43,329	78%
Commercial Business	6,244	11%
Commercial Real Estate and Construction	3,727	7%
Consumer	1,058	2%
Residential Real Estate-Secured	892	2%
Total Loans Outstanding:	\$55,250	100%

* Bank compiled data

The last CRA performance evaluation in March 1998 rated the bank as “Satisfactory.”

DESCRIPTION OF THE ASSESSMENT AREA

Borrego Springs Bank’s assessment area contains all 445 census tracts that comprise the San Diego County Metropolitan Statistical Area (MSA) 7320, which consists of all of San Diego County. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies.

The total population of San Diego County was approximately 2.5 million according to the 1990 United States Census. (The more recent 2000 Census data showed the population of San Diego County to be approximately 2.8 million.) Median housing value in the area was \$198,213 with 50% of total housing units owner-occupied, according to the 1990 Census. Dun and Bradstreet 2002 economic data reflect that small businesses with annual revenue of less than \$500,000 represent the majority of the number of businesses in the area.

The 1990 Census median family income in the area was \$39,798. The Department of Housing and Urban Development (HUD) updated the median family income in 2002 to \$60,100. Table 2 provides a breakdown of the San Diego MSA income designation of geographies and families.

Table 2

ASSESSMENT AREA COMPOSITION SAN DIEGO MSA INCOME DISTRIBUTION OF CENSUS TRACTS & FAMILIES*				
Income of Census Tracts	Number of Total Census Tracts	Percent of Total Census Tracts	Number of Total Families	Percent of Total Families
Low Income	26	6%	120,263	20%
Moderate Income	96	22%	113,264	19%
Middle Income	193	43%	135,068	22%
Upper Income	117	26%	236,549	39%
N/A	13	3%	0	0%
Total:	445	100%	605,144	100%

*Source: 1990 U.S. Census

According to the California Employment Development Department, the economy in San Diego County is centered in services, retail trade, government, and manufacturing. In 2001, services accounted for one-third of all jobs in San Diego. In addition, retail trade, government, and manufacturing combined total 45 percent of all jobs in the area. The unemployment rate in San Diego County in 2001 was 3.2 percent, which is significantly lower than the state of California's unemployment rate of 5.3 percent. The fastest growing sectors of projected growth are centered in the service industry, retail trade, and government.

The local economy surrounding the bank's Borrego Springs headquarters is centered in seasonal tourism given the desert location. A number of small owner-operated businesses support the tourists and local residents. This office is located in the Anza-Borrego desert about 86 miles southwest of Palm Springs and 90 miles northeast of San Diego. The local area has seen little economic growth in recent years due to its remote location.

There is strong competition for market share among area financial institutions including several community banks and branches of mid-size and large commercial banks. Banks competing for commercial business include Bank of America, Wells Fargo, U.S. Bank, Cuyamaca National Bank, and San Diego National Bank. However, because the bank is primarily a SBA lender, direct competition is primarily from other SBA lenders. Competing banks for SBA loans in the bank's assessment area include Temecula Valley Bank, N.A., Community National Bank, and Southwest Community Bank.

In conjunction with this CRA examination, we interviewed a representative from a county economic development agency located in the San Diego MSA. We also reviewed other contacts performed by our agency in June 2001. We did this to help identify community needs for credit or services and to determine the extent of financial institution involvement in addressing identified needs. All of the contacts reported the need for affordable housing, small business financing, and small business education.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

The bank's commitment to the Community Reinvestment Act is reflected in the performance criteria explained below.

LOAN-TO-DEPOSIT RATIO

The bank's loan-to-deposit (LTD) ratio is more than reasonable given its size, financial condition, and the competitive banking environment. We evaluated the bank's quarterly average LTD ratio over the last 15 quarters, from June 1999 to December 2002. The bank's average ratio was 66 percent, compared to the 76 percent average ratio of similarly situated banks (banks with similar asset size headquartered in the San Diego MSA). However, when we include SBA loans the bank originated but subsequently sold during the evaluation period, the average quarterly LTD ratio is 106 percent. This represents a strong commitment of resources to lending activity. Table 3 shows the bank's average LTD ratios when we include the SBA loans the bank originated and sold in years 1999-2002.

Table 3

BORREGO SPRINGS BANK ANNUAL LTD RATIO INCLUDING SBA LOANS ORIGINATED AND SOLD YEARS 1999 – 2002	
YEAR	LTD RATIO INCLUDING SBA LOANS SOLD*
1999	101%
2000	107%
2001	113%
2002	104%
TOTAL	106%

* Bank Compiled Data

LENDING IN ASSESSMENT AREA

The bank did not originate a majority of the number and dollar volume of its loans within its assessment area during the evaluation period. For this analysis, we reviewed all bank loans originated from January 1999 through December 2002. We prepared this analysis based on the bank's data, which we tested for accuracy. As Table 4 shows, the bank only originated 22 percent of the number of its loans and 32 percent of the dollar volume within its assessment area.

As explained earlier, the less than satisfactory volume of lending within the assessment area resulted from the bank's business focus on SBA lending and its related operation of 15 out-of-area SBA loan production offices. According to the *Coleman Report* (a privately owned SBA news publication), Borrego Springs Bank is ranked as one of the top 50 SBA 7(a) lenders in the nation for the past three years. (The SBA 7(a) program is a government-sponsored program that provides loan guarantees for small businesses that otherwise could not obtain a conventional bank loan.) This business strategy, while serving special needs of small businesses, resulted in the significant volume of out-of-area loan originations. Table 4 shows the distribution of loans originated inside and outside the bank's assessment area.

Table 4

NUMBER AND PERCENTAGE OF LOAN ORIGINATIONS INSIDE AND OUTSIDE THE ASSESSMENT AREA YEARS 1999 – 2002*								
	Inside Assessment Area				Outside Assessment Area			
Year	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)
1999	34	25%	6,055	35%	63	75%	18,352	65%
2000	32	24%	8,502	28%	83	76%	27,539	72%
2001	55	23%	12,915	35%	103	77%	42,155	65%
2002	40	17%	10,015	28%	101	83%	48,787	72%
Total	161	22%	\$37,487	32%	350	78%	\$136,832	68%

* Bank Compiled Data

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans reflects adequate penetration among businesses of different sizes given the demographics of the assessment area.

For this analysis, we randomly sampled 21 business loans the bank originated or purchased from March 1998 to December 2002, within the assessment area. We did not analyze consumer lending patterns because the bank is primarily a business/SBA lender. We compared the bank's business lending patterns to the area demographics for small businesses (having gross annual revenues of \$1 million or less).

The data reflects that the bank extended 52 percent of the number of loans and 49 percent of the dollar volume to small businesses. This does not closely compare to the 2002 Dun & Bradstreet area demographics for small businesses in the area, but is reasonable. The bank is an active SBA lender and is recognized in the community for its involvement in several small business and community development corporations that benefit the San Diego MSA. One local organization lists Borrego Springs Bank as one of eight institutions in the San Diego MSA with a high level of reinvestment in the community. (Also refer to the "Community Development Loan, Service, and Investments" section of this Evaluation).

Table 5 reflects the distribution of commercial lending by business revenue size compared to 2002 Dun & Bradstreet data.

Table 5

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE SAN DIEGO MSA YEARS 1998 - 2002					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Small Businesses in AA*
<=\$1 Million	11	52%	3,272	49%	91%
>\$1 Million	10	48%	3,444	51%	9%
Total Loan Sample:	21	100%	\$6,716	100%	100%

* Source: 2002 Dun & Bradstreet

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects excellent dispersion throughout the assessment area. For this analysis, we used the same sample of commercial loans described above under "Lending to Businesses of Different Sizes." Lending patterns compare very favorably with the area demographics in the respective census tracts, especially in low- and moderate-income tracts.

Table 6 reflects the bank's business lending patterns compared to area demographics.

Table 6

**GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS
SAN DIEGO MSA
YEARS 1998-2002**

Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Low Income	3	14%	2,100	31%	4%
Moderate Income	8	38%	2,617	39%	23%
Middle Income	8	38%	1,530	23%	44%
Upper Income	2	10%	469	7%	29%
Total Loan Sample:	21	100%	6,716	100%	100%

*Source: 2002 Dun & Bradstreet

QUALIFIED COMMUNITY DEVELOPMENT LOAN, SERVICES AND INVESTMENTS

Borrego Springs Bank demonstrated superior commitment to community reinvestment as reflected in its exceptional level of community development loans, services, and investments. During the evaluation period, the bank originated \$4.8 million in community development loans, representing 68 percent of its Tier One Capital.

Commendably, the bank has taken a leadership role in reducing barriers to lending to the Native American community. The bank's president has devoted significant time and resources to improve policies and practices related to federal lending programs in this area, and worked to develop new and innovative products to meet the credit needs of Native Americans in the assessment area. A summary of the bank's community development loans, services, and investments follows.

Community Development Loans

- ❑ Borrego Springs Bank developed an innovative way to assist California tribes with economic development. Through a multi-tribe agreement, revenue from casinos is shared with tribal governments that either are not involved in gaming or only minimally involved. Through this revenue sharing, various tribes have a reliable source of income that they can use to secure loans for housing development and for starting up or expanding small businesses. For example, the Los Coyotes Band of Indians in rural San Diego County received a \$75,000 loan from the bank secured with revenue-sharing funds. The proceeds will be used to complete a housing project initially funded through a federal housing grant.
- ❑ The bank granted a \$4.5 million loan (secured by tribal cash deposits) to the Viejas Band of Kumeyaay Indians to assist with community development projects targeted for low- and moderate-income persons. (The Viejas Band is one of approximately 12 bands of the Kumeyaay Indian Nation living on the 1,600-acre reservation in the Viejas Valley, east of the City of Alpine, California.) The majority of the proceeds financed the installation

of sewers and water tanks, with the remaining portion used for a pilot home loan program.

- ❑ The bank also developed a program to enable borrowers establish (or reestablish) credit. Funds can be used for debt consolidation or to establish credit history. Initially, tribal deposits collateralized these loans, but the bank now only requires collateral on a case-by-case basis. The objective of the program is to ultimately enable repeat borrowers to qualify for credit without any tribal collateral. The bank has granted these loans in an average amount of \$5,000 each, totaling nearly \$180M during our CRA evaluation period.
- ❑ Borrego Springs Bank is an active participant in the Bankers Small Business Community Development Corporation, which promotes economic development by financing small businesses, particularly through its micro-loan program. During the evaluation period, the bank contributed \$53,500 to the program.
- ❑ During the evaluation period, the bank contributed \$15,000 to the loan pool program of the Inland Empire Small Business Development Center to help meet small business credit needs. This center also provides small business owners with businesses assistance services.

Community Development Services

- ❑ Borrego Springs Bank took a proactive role in making financial services more readily available to Native Americans. Many tribal members had no previous banking relationship, and the bank staff visited them on the Viejas reservation and assisted them with opening new accounts. Bank staff also provides credit counseling to those who request it.
- ❑ The bank provides assistance for tribes by helping to structure casino-related development loans, and helping to develop other economic or government projects. In addition, the bank provides ancillary services at tribal gaming facilities such as check-cashing, credit card advances, operation of ATMs, payroll and direct deposit for casino employees, and vault services. Other services the bank provides to tribes include: vault/safe deposit boxes, tribal deposit, funds management, and trust account services for minors and seniors.
- ❑ The bank's senior credit officer is active in promoting activities that target low- and moderate-income (LMI) individuals, and participates in activities that revitalize or stabilize LMI geographies. This officer serves as a board member and committee member of Bankers Small Business Community Development Corporation helping to provide flexible lending alternatives for small business owners that do not traditionally qualify for conventional lending programs.

Community Development Investments

Borrego Springs Bank's record of community development investments during the evaluation period was excellent. The bank's qualified investments and grants totaled \$360,500 and represented 5 percent of its Tier One Capital as of December 31, 2002. A description of these investments follows.

- ❑ The bank invested in a local community development financial institution (CDFI) purchasing 5,000 shares totaling \$50,000. In addition, the bank invested \$300,000 in certificates of deposit to further enhance the CDFI's ability to extend consumer mortgage and business loans to under-served communities throughout San Diego. The CDFI's primary purpose is improving and increasing affordable housing, and assisting economic development in LMI communities.
- ❑ The bank also invested in the Bankers Small Business Community Development Corporation with 210 shares totaling \$10,500.

RESPONSES TO COMPLAINTS

Borrego Springs Bank has not received any complaints about its performance under the Community Reinvestment Act during this evaluation period.

FAIR LENDING REVIEW

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 decided that a comprehensive fair lending examination would not need to be conducted in connection with the CRA evaluation this year.