



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

August 20, 2008

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Armed Forces Bank of California, National Association
Charter Number 23946

San Diego NS Navy Exchange Bldg 3187A
2260 Callagan Highway, Suite 1
San Diego, California 92136

Office of the Comptroller of the Currency

Kansas City South Field Office
7101 College Boulevard, Suite 1600
Overland Park, Kansas 66210

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 Outstanding.

The major factors supporting this rating for Armed Forces Bank of California, N.A. (AFBCA) are:

- AFBCA's distribution of consumer loans to borrowers of different income levels is excellent. The bank's consumer loans are to low- and moderate-income households exceeds demographics.
- AFBCA's level of community development activities in lending, investment, and services is excellent.
- A substantial majority of the bank's loans are to military persons within its assessment area.
- AFBCA's average quarterly loan-to-deposit ratio is excellent.

SCOPE OF EXAMINATION

The evaluation period for the Lending Test is October 1, 2001 through June 30, 2008. For the lending test, we evaluated consumer loans as they represent a substantial majority of the bank's business. In addition, the primary credit need of military personnel is consumer loans. The bank has requested consideration of its community development (CD) loans, services, and investments, which examiners reviewed for the period covering November 21, 2001 to August 20, 2008.

The bank only originated/purchased one loan meeting the credit definitions of the Home Mortgage Disclosure Act (HMDA) and has no small business loans. HMDA loans are not a primary credit need, and there are no small business loan opportunities on military installations. Due to the extremely low volume of such lending, an analysis of HMDA and small business loan performance is not meaningful.

The bank's overall rating is based on its performance in the entire assessment area, including loans to current and former military personnel. Emphasis is placed on consumer loan products, which is the bank's primary credit product to meet the needs in its assessment area.

DESCRIPTION OF INSTITUTION

AFBCA, an intrastate bank headquartered in San Diego, California, is wholly owned by Dickinson Financial Corporation (DFC), a \$5.7 billion multi-bank holding company headquartered in Kansas City, Missouri. As of June 30, 2008, AFBCA reported total assets of \$21 million, with net loans of \$10 million (45 percent of total assets). AFBCA has six bank locations inside Naval/Marine Corps Bases in California. The main bank relocated to Naval Exchange in San Diego in 2007 and converted the former main bank to an operations center. Four branches have opened since the last CRA examination.

AFBCA is a full service institution that offers various loan and deposit products. The bank's primary business strategy is to serve the needs of current and former military personnel throughout the world. AFBCA specializes in providing banking services on military installations. The bank's primary loan product is non real-estate consumer loans, which is consistent with the credit needs in military communities.

We conducted one community contact during the evaluation with a community-based development organization that serves military personnel and their families in the San Diego area. The contact identified the primary credit need as affordable rental housing, as well as education on how to manage debt in the military community. Community development opportunities are extremely limited as most needs are provided and controlled by the government.

DESCRIPTION OF ASSESSMENT AREA(S)

The bank's entire assessment area (AA) received a full-scope review since it is not defined by geography.

AFBCA defines its AA as all active or reserve military personnel and their dependents, retired military personnel, persons enrolled in military academies, and persons participating in college ROTC programs throughout the world. The CRA regulation allows this option to banks whose business predominantly consists of serving the needs of military personnel or their dependents who are not located within a defined geographic area.

CD opportunities are very limited. The federal government owns all land and buildings and provides all housing and all required services, including maintenance.

No legal, financial, or other factors impede AFBCA's ability to help meet the credit needs of its AA. The bank's performance was rated "Outstanding" at its last CRA evaluation dated November 26, 2001.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance under the lending test is rated "Outstanding".

AFBCA's lending activity is responsive to the primary credit needs of the bank's AA. The primary credit need of military personnel is consumer loans, which received the most weight in evaluating the bank's CRA performance.

Loan-to-Deposit Ratio

The bank's average quarterly loan-to-deposit ratio shows an excellent response towards meeting the credit needs of its AA. Over the past 27 quarters since the last CRA examination, the quarterly average loan-to-deposit ratio was 154 percent. AFBCA's net loan-to-deposit ratio is 76 percent as of June 30, 2008.

Lending in Assessment Area

Lending activity meets the primary credit needs of AFBCA's AA. For consumer loans in the evaluation period, management originated 75 percent by number and 80 percent by dollar volume to military personnel. The dollar volume of loans to the military is low and affected by the fact that the bank's primary loan product, consumer loans, has lower dollar amounts. There were no small business loans made to military personnel.

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

AFBCA's consumer lending to borrowers of different income levels is excellent. The total number of consumer loans to low- and moderate-income borrowers significantly exceeds demographic percentages used during this examination.

To determine the percentage of bank consumer loans to borrowers of different income levels, we used the United States estimated median annual household income of \$54,385 as determined by the U.S. Census Bureau. For comparison purposes, we also used information from the U.S. Census Bureau to determine the percentage of households by income. While this information does not detail the number of low-, moderate-, middle-, and upper-income households in the U.S., it does provide a fair approximation of these numbers.

Based on information from the U.S. Census Bureau website for the total number of households in 2007:

- 25 percent of households have incomes of less than \$25 thousand. This is compared to 27 percent of bank loans made to low-income borrowers with incomes of less than \$27,192.
- 11 percent of households have incomes from \$25 thousand to less than \$35 thousand. This is compared to 31 percent of bank loans made to moderate-income borrowers with incomes from \$27,192 to less than \$43,507.

Geographic Distribution of Loans

An analysis of the geographic distribution of loans is not meaningful since the bank's community is not defined by geography.

Optional Criteria - Qualified Investments and Community Development Services

Community Development Loans

During our evaluation period, AFBCA received credit for a loan originated by their affiliate, Bank Midwest, N.A. This CD loan totaled \$510 thousand and helped provide affordable housing at Fort Sill through the construction of modular barracks. These barracks will house enlisted soldiers, which are primarily low- and moderate-income individuals.

Qualified Investments

During the evaluation period, the bank made \$123 thousand in qualified investments. This included five donations, grants, or in-kind contributions totaling \$23 thousand to organizations in its AA that provide services targeted to low- and moderate-income individuals. The bank invested the remaining \$100 thousand in a CRA Qualified Investment Fund. This fund allows geographical areas with a limited supply of qualified investments to purchase shares in a CRA-dedicated fund. Banks are allowed to specify direct underlying securities located in its AA. AFBCA invested its \$100 thousand in low-income housing tax credit projects in San Diego, California, which provide affordable housing on military installations and benefits Naval Air Station, San Diego.

Community Development Services

AFBCA offers financial service to non-profit organizations that primarily serve low- and moderate-income (LMI) individuals. Bank personnel provided the following financial expertise:

- Counseling junior enlisted soldiers and their families about receiving financial assistance.
- Assisting politicians in drafting legislation for Predatory Lending to military, which set a cap on the interest rates charged. Over 90 percent of the families assisted are low-income families.
- Co-Chairing the Audit committee for United Services Organization fundraiser that targets low-to-moderate income soldiers, sailors, airmen, and marines.
- Serving as treasurer for an organization that raises funds for scholarships to low-income students.

Responsiveness to Community Development Needs

AFBCA's performance shows exceptional responsiveness to CD needs of military personnel.

AFBCA originated three loans totaling \$2.7 million to finance Energy Savings Performance Contracts. The bank made these loans to independent contractors approved by the Department of Defense to replace outdated heating and cooling systems and to make other improvements on military installations. These improvements, required by an Executive Order and the Energy Policy Act of 1992, will help improve the quality of life for enlisted personnel and lower utility costs. A majority of enlisted personnel are low- and moderate-income individuals.

Although they are not considered community development loans, they reflect the bank's strong commitment to its military AA and desire to help maintain the viability of military installations.

Responses to Complaints

AFBCA has not received any complaints regarding its performance in meeting community credit needs.

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.