



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

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## **PUBLIC DISCLOSURE**

**January 29, 2007**

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

**1st Century Bank, National Association  
Charter Number 24442**

**1875 Century Park East, Suite 1400  
Los Angeles, CA 90067**

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

**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 Satisfactory.**

1st Century Bank's satisfactory record of meeting the credit needs within its community is supported by the following:

- The loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The volume of loans made in the assessment area exceeds the standards for satisfactory performance.
- The geographic distribution of loans meets the standard for satisfactory performance.
- Lending to businesses of different incomes does not meet the standard for satisfactory performance.

## **DESCRIPTION OF INSTITUTION**

1st Century Bank, N. A. (FCB) is a full service commercial bank with one branch located in Century City, a community on the West side of the City of Los Angeles. This de novo bank, which is defined as less than three years old, began operations in March 2004. FCB opened a loan production office in the South Bay area of the County of Los Angeles in March 2006. However, the bank closed this office in November 2006 due to economic factors. The bank has no affiliates.

FCB's primary lending focus is to small businesses, professional service providers, and to owners of commercial real estate. Business loan products include commercial loans, commercial real estate loans, working capital lines of credit, and equipment loans. The bank offers consumer loan products as an accommodation to its customers. Home mortgage products are not a primary focus of the bank's business lending strategy.

FCB's business customers do not require the same degree of banking services or facilities that a retail consumer would require. FCB offers internet banking, telephone banking, bank-by-mail, on-line cash management, courier, payroll, automated teller machines, and merchant processing. These services are available in all geographies, including low- and moderate-income geographies, and reduce the need for FCB's customers to be physically located near bank facilities. As of September 30, 2006, the bank reported total assets of \$177 million. Total loans were \$118 million, or 67 percent of total assets.

Table 1 provides detail regarding the composition of the loan portfolio as of September 30, 2006.

<b>Table 1 – FCB's Loan Portfolio Composition</b>		
<b>Loan Type</b>	<b>Outstanding (000's)</b>	<b>Percent of Total Loans</b>
Commercial/business loans	\$67,726	57.1
Commercial Real Estate Loans *	\$30,433	25.6
Consumer Real Estate	\$14,562	12.2
Other consumer loans	\$5,898	5.1
Total	\$118,619	100.0

Source: Bank loan trail balance

\*Commercial real estate loans are for the purchase or refinancing of commercial properties where real estate is taken as collateral.

The bank has no legal, financial, or other factors impeding its ability to help meet the credit needs in its assessment area. This is the first Performance Evaluation to assess FCB's record of compliance with the Community Reinvestment Act.

## **DESCRIPTION OF THE ASSESSMENT AREA**

The Board of Directors has designated the Los Angeles-Long Beach-Glendale Metropolitan Area, which is composed of the County of Los Angeles, as the bank's assessment area (AA). The AA meets the requirements of the CRA and does not arbitrarily exclude low- and moderate-income geographies.

### **Los Angeles County**

Demographic Information for Full Scope Area: Los Angeles County						
Demographic Characteristics	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
Geographies (Census Tracts)	2,054	8.71	28.29	27.99	34.23	0.78
Population by Geography	9,519,338	8.00	29.44	30.88	31.58	0.10
Owner-Occupied Housing by Geography	1,499,694	1.91	15.46	31.30	51.33	0.00
Business by Geography	769,909	7.76	20.54	26.26	44.69	0.75
Farms by Geography	5,966	3.54	14.80	31.11	50.18	0.37
Family Distribution by Income Level	2,154,311	23.87	16.49	17.40	42.24	0.00
Distribution of Low-and Moderate-Income Families throughout AA Geographies	869,463	13.65	41.46	28.95	15.94	0.00
Median Family Income HUD Adjusted Median Family Income for 2006 Households Below Poverty Level	\$46,509 \$56,200 15%	Median Housing Value Unemployment Rate (2000 US Census)	\$240,248 3.72%			

(\*) The NA category consists of geographies that have not been assigned an income classification.

Source: 2000 US Census and 2006 HUD updated MFI

Market Share for loans and deposits is highly competitive.

FCB conducts business in a highly competitive banking environment. The bank competes with many other financial institutions for loans and deposits. For example, as of June 30, 2006, the bank ranked 105th of 164 FDIC insured institutions with a 0.04 percent deposit market share in the AA. The market is somewhat concentrated, with the three largest banks holding 41 percent of the insured deposits of the area. Banks with deposit market share similar to FCB include Mission Valley Bank, Professional Business Bank, and Commonwealth Business Bank. Nearly one thousand mortgage lenders and over 260 small business lenders also provide significant competition within the AA. Major lenders include Countrywide Bank, Washington Mutual, Bank of America, and Wells Fargo Bank.

The Los Angeles AA is a complex, highly diverse, urban area that includes 80 cities and a number of unincorporated areas.

Los Angeles is the largest and most rapidly growing metropolitan region in the fastest growing state in the country. The Los Angeles area is the second largest metropolitan area in the U.S., with 10.2 million people, an increase of 7 percent since the 2000 census. However, the annual growth trend is slowing due to the high cost of living in Los Angeles County.

The leading industries are international trade and tourism. The Los Angeles Customs District is the nation's largest, based on two-way trade. The Port of Los Angeles/Long Beach is one of the busiest in the nation, as is the Los Angeles International Airport. Los Angeles is a large manufacturing center, emphasizing apparel, computer and electronics, and fabricated metal products. Film and television production remain a large part of the local economy. Defense and aerospace manufacturing are still important sources of employment. The unemployment rate has declined from a 6.5 percent average in 2004, to a 5.4 percent average in 2005, and to a 4.5 percent average as of April 2006. The continued population growth and the diverse economy have created many small business opportunities. For example, 66 percent of businesses located within the area have annual revenues of \$1 million or less. In 2005, Dunn and Bradstreet reported that 70 percent of the businesses located in Los Angeles County have fewer than 20 employees.

In January 2002, HUD designated Los Angeles as a Renewal Community eligible to share in an estimated \$17 billion in tax incentives to stimulate job growth and economic development, and to create affordable housing. Within the AA, there is one Federal Empowerment Zone, four State Enterprise Zones, and various redevelopment areas.

Housing affordability is an ongoing and worsening problem in the Los Angeles area.

The 2005 U.S. Census Bureau reports that only 49 percent of all housing is owner-occupied. An increase in population alone is enough to strain a tight housing market. However, a significant shortfall in producing additional housing units exacerbates the problem. This combination puts additional pressure on housing prices and will likely contribute to the increasing housing affordability gap.

The cost of housing is relatively high. The 2006 HUD report indicates the adjusted median family income for the area is \$56,200. The percentage of households living below the poverty

level is 15 percent. While the HUD reported the median housing value for 2006 at \$240,248, the Los Angeles County Economic Development Corp. reported the median housing value at \$471,420 in June 2006. Rising rents have prompted several communities to adopt rent stabilization ordinances that allow only a three percent annual increase. Multi-family housing vacancy rates have declined from 5.8 percent in June 2003 to 4.0 percent in March 2006.

Community contacts indicate there are significant credit and community development needs.

We contacted four Los Angeles community based organizations including three economic development corporations and one affordable housing organization. These contacts stated the predominant credit needs of the community are affordable housing financing and various types of credit for small businesses.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Scope of the Examination**

We evaluated the bank's CRA performance based on a sample of loans originated between March 1, 2004 and September 30, 2006. FCB's primary lending focus is to small businesses, owners of commercial buildings, and professional service providers. Consistent with this strategy, we focused our evaluation on commercial loans and commercial real estate loans, which were the largest concentrations of the bank's loan portfolio. Our loan sample consisted of 24 commercial loans and 19 commercial real estate loans.

Consumer loans are not a significant lending focus of the bank and are made as accommodations to its customers. We did not consider these loans in our analysis. In 2004, to achieve its strategic growth plans, the bank purchased \$10.2 million in home purchase mortgages from the secondary market. Since then, no additional purchases were made. At September 30, 2006, the outstanding balance of these loans totaled \$5.7 million. FCB bank does not offer this loan product.

### **Loan-to-Deposit Ratio**

The bank's loan to deposit (LTD) ratio is reasonable and meets the standard for satisfactory performance.

The bank's LTD ratio is reasonable given the bank's size, de novo status, credit needs of the community, and competition by other financial service institutions. We compared the bank's LTD to six institutions within the AA; three were seasoned institutions and three were de novo institutions that began operations during the review period. All six institutions were similar in asset size, and located in close proximity to FCB. Each of the banks was equally affected by similar economic conditions, such as housing costs, unemployment rate, and competition for loans.

The bank's average LTD ratio for the ten quarters ending September 30, 2006, was 62.68 percent. This average ratio is lower than the three seasoned banks' average ratio of 80.71 percent, but exceeds the de novo institutions' average ratio of 54.73 percent.

## Lending in Assessment Area

FCB's lending in the AA is strong.

Commercial loan lending within the AA exceeded the standards for satisfactory performance. By number, 92 percent of total sampled loans were to businesses located within the AA. By dollar, 80 percent of sampled loans benefited businesses within the AA.

In addition, commercial real estate lending within the AA exceeded the standards for satisfactory performance. By number, 63 percent of sampled commercial real estate loans were to borrowers located within the AA. By dollar, 58 percent of sampled commercial real estate originations benefited businesses within the AA. See Table 2 for details.

**Table 2 - Lending in the Assessment Area**

Loan Type	Number of Loans				Dollars of Loans (000's)					
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	\$
Commercial	22	92%	2	8%	24	\$13,330	80%	\$3,300	19%	\$16,630
Commercial Real Estate	12	63%	7	37%	19	\$17,958	58%	\$13,100	42%	\$31,058
<b>TOTAL</b>	<b>34</b>		<b>9</b>		<b>43</b>	<b>\$31,288</b>		<b>\$16,400</b>		<b>\$47,688</b>

Source: Data collected from 2006 Business Geo-demographic data and the loan sample.

## Geographic Distribution of loans

FCB's geographic distribution of loans is satisfactory.

### Commercial Loans

The geographic distribution of commercial loans in low-income geographies is reasonable. The bank's performance is not significantly lower than the demographic data. Demographic data shows that 8 percent of all businesses were located in low-income geographies. By number, 5 percent of sampled commercial loans originations were in low-income geographies.

The geographic distribution of commercial loans in moderate-income geographies is strong and exceeds the standards for satisfactory performance. The AA demographic data showed that within the AA, 21 percent of total businesses were in moderate-income geographies. During the review period, 32 percent of the bank's commercial originations were in moderate-income geographies. See Table 3 for details.

**Table 3 - Geographic Distribution of Commercial Loans to Businesses in the Assessment Area**

Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA	% of	% of AA	% of	% of AA	% of	% of AA	% of

	<b>Business</b>	<b>Number of Bank Loans</b>						
<b>*Commercial</b>	<b>8%</b>	<b>5%</b>	<b>21%</b>	<b>32%</b>	<b>26%</b>	<b>14%</b>	<b>45%</b>	<b>49%</b>

Source: Data collected from 2006 Business Geo-demographic data and the loan sample

\*Less than one percent of the census tracts did not report census data or income of businesses

#### Commercial Real Estate Loans

The geographic distribution of commercial real estate loans in low-income geographies is reasonable. The distribution is consistent with the AA demographic data and meets the standards for satisfactory compliance.

The geographic distribution of commercial real estate loans in moderate-income geographies is reasonable. The demographic data showed that 21 percent of total businesses were located in moderate-income geographies. During the review period, 17 percent of the bank's commercial real estate loan originations were in moderate-income geographies. See Table 4 for details.

<b>Table 4 - Geographic Distribution of Commercial Real Estate Loans to Businesses in the Assessment Area</b>								
<b>Census Tract Income Level</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
<b>Loan Type</b>	<b>% of AA Business</b>	<b>% of Number of Bank Loans</b>	<b>% of AA Business</b>	<b>% of Number of Bank Loans</b>	<b>% of AA Business</b>	<b>% of Number of Bank Loans</b>	<b>% of AA Business</b>	<b>% of Number of Bank Loans</b>
<b>*Commercial Real Estate</b>	<b>8%</b>	<b>8%</b>	<b>21%</b>	<b>17%</b>	<b>26%</b>	<b>17%</b>	<b>45%</b>	<b>58%</b>

Source: Data collected from 2006 Business Geo-demographic data and the loan sample.

\* Less than one percent of the census tracts did not report census data or income of businesses

#### **Lending to Businesses of Different Revenues**

FCB's lending performance to businesses with annual revenues of \$1 millions or less does not meet the standard for satisfactory performance.

The AA demographic data showed that 66 percent of the businesses in the AA generate annual revenues of \$1 million or less. By dollar, 50 percent of sampled commercial loans and commercial real estate loans were to borrowers with revenues of \$1 million or less. By dollar, 48 percent of the sampled loans had revenues of \$1 million or less.

In an effort to gain market share, a de novo bank would originate loans to both small and large businesses within its AA. To increase its small business market share, FCB plans to implement a small business loan program designed to benefit businesses with revenues of \$1 million or less.

See to Table 5 for details.

<b>Table 5-Borrower Distribution of Loans to Businesses in the Los Angeles AA</b>		
Business Revenues	Less than or equal to \$1 million	Greater than \$1 million
Percent of AA Businesses*	66 percent	6 percent
Percent of Loans by Number	50 percent	50 percent
Percent of Loans by Dollar	48 percent	52 percent

Source: Data collected from 2006 Business Geo-demographic data and the loan sample.

\*28 percent of the businesses in the AA did not report revenues.

### **Responses to Complaints**

The bank has not received any complaints associated with its' CRA performance.

### **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.