



**SMALL BANK**

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

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## **PUBLIC DISCLOSURE**

**June 11, 2007**

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

**Mission Oaks National Bank  
Charter Number 24034**

**41530 Enterprise Circle South, Suite 100  
Temecula, California 92590**

**Office of the Comptroller of the Currency  
Southern California South Field Office  
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.**

## **INSTITUTION'S CRA RATING: This institution is rated "Outstanding."**

The primary factors supporting this rating are:

- The loan-to-deposit ratio exceeds the standards for satisfactory performance considering the bank's size, financial condition, and assessment area (AA) credit needs.
- The geographic distribution of loans reflects excellent dispersion in the AA, especially in moderate-income census tracts. The bank also funded two real estate development loans, which helped address an identified community credit need for affordable housing.
- The bank originated or purchased a substantial majority of loans within its AA during the evaluation period.
- Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need.

## **DESCRIPTION OF INSTITUTION**

Mission Oaks National Bank is a full-service community bank headquartered in Temecula, California. The bank is wholly-owned by Mission Oaks Bancorp, a one-bank holding company.

The bank provides community access to credit at its main office and two branch offices. The main office and one branch are located in the city of Temecula. Since the last CRA examination, the bank expanded its AA and opened a third branch in the city of Ontario. The main office is located in a moderate-income census tract. The South Temecula branch is located in an upper-income census tract within six miles of the main office. Both of these branch offices are surrounded by middle- and upper-income census tracts. The Ontario branch is located in a middle-income census tract, surrounded by moderate-, middle-, and upper-income census tracts. ATM services are available at all three locations. The bank operates two loan production offices (LPO) outside its AA: one in north San Diego County, California, and the other in Gilbert, Arizona. These LPOs generate Small Business Administration (SBA) loans and provide referrals for commercial real estate loans to other banks.

No financial or legal impediments hinder the bank's ability to meet the credit needs of the communities it serves. As of December 31, 2006, the bank had total assets of \$184 million, net loans of \$131 million (71% of total assets), and total deposits of \$139 million. The primary business focus is commercial lending. Commercial real estate, construction, and business loans comprise 95% of the total loan portfolio.

The following table reflects the bank’s current loan portfolio by major product type.

<b>LOAN PORTFOLIO COMPOSITION</b>		
<b>As of December 31, 2006</b>		
<b>Loan Type</b>	<b>\$ Volume (000)</b>	<b>% of Portfolio</b>
Commercial Real Estate and Construction	\$ 101,050	75%
Commercial	27,366	20%
Real-estate secured	4,734	4%
Consumer	835	< 1%
<b>Total:</b>	<b>\$ 133,985</b>	<b>100%</b>

\*Source: December 31, 2006 Report of Condition and Income

The last CRA evaluation as of September 2002 rated the bank’s performance as “Satisfactory.”

## **DESCRIPTION OF THE RIVERSIDE-SAN BERNARDINO ASSESSMENT AREA**

The bank’s AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area conforms either to county lines or natural geographical barriers within the Riverside-San Bernardino-Ontario Metropolitan Statistical Area (MSA). The AA consists of the majority of Riverside County and the southwest portion of San Bernardino County. The San Bernardino Mountains form the northernmost AA boundary. The San Diego County line forms the southern boundary. The AA is bounded on the east by the San Jacinto Mountains along the foothills; on the west by the Orange County line; and on the northwest by the Los Angeles County line.

Population in the AA was approximately 2.3 million according to the 2000 U.S. Census. Of the 406 census tracts that comprise the area, 6% are low-income, 26% are moderate-income, 39% are middle-income, and 29% upper-income tracts and The 2006 HUD updated median family income was \$57,500. Approximately 62% of housing units are owner-occupied. The National Association of Realtors reports the median housing value as \$404,000 for the first quarter of 2007.

The area economy is strong and expected to experience continued growth in 2007. Economic data project job growth of 2.9%, with some slowing in residential construction. The Inland Empire has a low unemployment rate of 4.5% as of February 2007. Based on 2006 Business Geodemographic Data, the largest labor markets are in services (36%) and retail trade (16%). Major industries offering employment in the Riverside and San Bernardino counties include medical services, schools, casinos, and Internet and catalog shopping, according to State of

California economic data. Major employers include the Ontario International Airport, Pechanga Development, and University of California-Riverside.

[Source: The Husing Inland Empire Quarterly Economic Report, April 2007]

The City of Temecula has seen significant economic growth in recent years. From 1999 to 2006, the population grew 347% to 93,923. Temecula has the advantage of lower labor costs contributing to continued growth. Statistics support that people are willing to work for less to avoid commuting to coastal communities. However, growth in the business sector and work force resulted in strong housing demand and increased home prices. The median home price in Temecula in 2006 was \$480,000.

[Source: Southwest California At A Glance, City of Temecula, 2006]

The City of Ontario projects the local area will become Southern California's next major urban center. Access to major freeways, railways and the Ontario International Airport has contributed to strong growth in recent years. From 1991 to 2005, Ontario's jobs more than doubled from 41,501 to 103,394, an increase of 149%. Companies taking new space in Ontario have access to a well-educated and skilled workforce that has migrated to the area for its lower costs compared to coastal California.

[Source: City of Ontario: 2006 Annual Report]

The banking environment is highly competitive with strong competition from other independent banks such as Temecula Valley Bank, Centennial Bank, California Bank and Trust, Inland Empire National Bank, Inland Community National Bank, and Citizens Business Bank. The bank also competes with large bank branches in the area. Management reports that competition further increased as larger banks seek to increase lending to small- and medium-sized businesses.

Examiners contacted two community organizations in the Riverside-San Bernardino-Ontario MSA to determine primary credit needs in the area. These organizations focus on housing and economic development issues. Based on these contacts, identified credit needs include small business lending and affordable housing, especially given the strong growth in the Inland Empire and surrounding areas in recent years.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

To evaluate the bank's commitment to the Community Reinvestment Act, we analyzed the performance criteria described below.

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

The bank's loan-to-deposit ratio exceeds the standards for satisfactory performance given its size, financial condition, and area credit needs. We evaluated the bank's quarterly average loan-to-deposit ratio over the last 17 quarters since the last examination. The bank's average loan-to-deposit ratio is 80%. This compares very favorably with the 70% quarterly average ratio of

similarly situated banks with similar asset size located in the Riverside-San Bernardino-Ontario MSA.

**Lending in Assessment Area**

Mission Oaks National Bank granted a substantial majority of the number and dollar volume of its loans within its defined AA. For this analysis, we reviewed loan data for 2005 and 2006. We randomly sampled 20 commercial loans, which represent the bank’s primary loan product. Based on the sample, the bank originated or purchased 75% of the number and 78% of the dollar volume of loans within its defined area.

The following table reflects the number and dollar volume of loans the bank originated or purchased inside and outside the AA based on our sample.

<b>Table 1 - Lending in the Riverside/San Bernardino Assessment Area</b>										
<b>2005 – 2006</b>										
Loan Type	Number of Loans					Dollars of Loans				
	Inside		Outside		Total	Inside		Outside		Total (000’s)
	#	%	#	%		\$(000’s)	%	\$(000’s)	%	
Commercial loans	15	75%	5	25%	20	\$4,726	78%	\$1,327	22%	\$6,054

*Source: Random sample of commercial loans*

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

Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need. The percentage of loans granted to small businesses (those with annual revenues of \$1 million or less) compares well to the percentage of small businesses in the AA. We gave greater consideration to the number of loans the bank granted given that the credit needs of a greater number of businesses were served.

We randomly sampled 20 commercial loans the bank originated or purchased in 2005 and 2006 inside its AA. We did not analyze consumer lending to borrowers of different income levels because the bank is primarily a commercial lender, and consumer lending is not a significant activity.

The following table reflects the bank’s record of lending to businesses of different sizes based on our sample.

**Table 2 - Borrower Distribution of Loans to Businesses**

**Riverside/San Bernardino Assessment Area**

**2005 - 2006**

<b>Business Revenues (or Sales)</b>	<b>≤\$1,000,000</b>	<b>&gt;\$1,000,000</b>
<b>% of AA Businesses*</b>	<b>67%</b>	<b>6%</b>
% of Bank Loans in AA by #	65%	35%
% of Bank Loans in AA by \$	62%	38%

*\* Demographic Data Source: 2006 Dun & Bradstreet - 27% of AA businesses did not report revenue data*

### **Geographic Distribution of Loans**

The geographic distribution of loans reflects excellent dispersion compared to AA demographics. Based on our sample of 20 commercial loans, the percentage of the number of business loans the bank originated or purchased in moderate-income census tracts significantly exceeds the percentage of businesses in moderate-income census tracts in the AA. Mission Oaks originated or purchased 45% of the number of loans within moderate-income census tracts. This compares very favorably to AA demographics that show 28% of AA businesses are located in moderate-income census tracts.

There were no loans in our random sample of 20 business loans granted in low-income census tracts. However, the bank originated a loan in a low-income census tract during the evaluation period. If included in the analysis, it would reflect that the bank originated 5% of the number of loans in low-income tracts. This compares favorably to area demographics that show 5% of AA businesses are located in low-income tracts. Considering that two of the three branches are located in, and are surrounded by, middle- and upper-income census tracts, this is reasonable performance. As the recently opened Ontario branch establishes its presence in the community over time, this may provide more lending opportunities for the bank in low-income census tracts.

The following table reflects the geographic distribution of the bank's business loans from our sample by census tract category.

**Table 3 - Geographic Distribution of Loans to Businesses**

**Riverside/San Bernardino Assessment Area  
2005 - 2006**

Census Tract Income Level*	Low		Moderate		Middle		Upper	
	% of AA Businesses	% of Number of Loans						
Commercial Loan Sample	5%	<b>0%</b>	28%	<b>45%</b>	39%	<b>20%</b>	28%	<b>35%</b>

*\*Demographic Data Source: 2006 Dun & Bradstreet*

In addition to the lending performance presented above, the bank funded two real estate development loans during the evaluation period, which enhances its record of meeting identified community credit needs. The City of Temecula Redevelopment Agency subsidizes funding of these projects to revitalize an older part of the city and provide affordable housing for low-income families. The bank’s participation in the projects described below helped meet an identified need for affordable housing in the AA.

- Mission Oaks originated a construction loan in the amount of \$4.9 million to fund a mixed-use real estate project that provides commercial/retail space and 22 residential apartments in the Old Town section of Temecula. The bank subsequently sold a portion of the loan and retained \$2.2 million as its funded portion. The residential units are designated as affordable housing for low-income families with restricted amounts of rents and income established by the Housing Authority of the County of Riverside.
- Mission Oaks participated in a \$5.2 million construction loan for a similar and adjacent project. The bank purchased a \$1.1 million portion of the total loan amount. This second project includes commercial/retail space and 24 residential units targeted specifically for low-income families.

**Responses to Complaints**

Mission Oaks National Bank has received no complaints about its performance under the Community Reinvestment Act during this evaluation period.

**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.