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Comptroller of the Currency  
Administrator of National Banks

SMALL BANK

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## **PUBLIC DISCLOSURE**

December 7, 1998

# **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**PALM DESERT NATIONAL BANK  
Charter Number 17121**

**73-745 El Paseo  
Palm Desert, California 92260**

**Comptroller of the Currency  
50 Fremont Street, Suite 3900  
San Francisco, California 94105**

**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 Community Reinvestment Act performance of **Palm Desert National Bank**, prepared by the **Office of the Comptroller of the Currency (OCC)**, the institution's supervisory agency, **as of December 7, 1998**. 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's *Record of Meeting Community Needs* is rated "**Satisfactory**."

Palm Desert National Bank demonstrates commitment to serving the communities in which it operates based on most performance criteria as outlined below.

- The loan-to-deposit ratio is comparable to similar banks in the area.
- The majority of loan originations are within the bank's assessment area.
- The bank lends to businesses of different sizes and borrowers of different income levels.
- The geographic distribution of loans does not meet the standard for satisfactory performance. Lending activity does not reasonably reflect the moderate-income demographics of the assessment area.

**DESCRIPTION OF INSTITUTION:**

Palm Desert National Bank is a full-service commercial bank based in Riverside County, California. The bank provides community access to credit at its one office in the city of Palm Desert. There is an automatic teller machine at that office. Palm Desert Investments, a one-bank holding company, owns 95% of the outstanding bank stock. The holding company reported total assets of \$6.1 million as of September 30, 1998.

There are no financial or legal impediments that hinder the bank’s ability to meet the credit needs of its community. As of November 30, 1998, the bank reported total assets of \$85 million, with loans comprising \$48 million. The primary lending focus is small businesses loans, commercial real estate loans, and construction loans. The following chart reflects the major products of the current loan portfolio.

**TOTAL LOANS OUTSTANDING BY MAJOR PRODUCT TYPE  
AS OF NOVEMBER 30, 1998**

<b>Loan Type</b>	<b>\$ Volume</b>	<b>% Loans by \$</b>
<b>Commercial Real Estate, and Construction</b>	23,223,229	49%
<b>Commercial Loans</b>	17,072,708	36%
<b>Installment/Consumer Loans</b>	7,406,311	15%
<b>Total</b>	47,702,248	100%

The last CRA performance evaluation in October 1996 rated the bank as “Satisfactory.”

**DESCRIPTION OF PALM DESERT NATIONAL BANK’S ASSESSMENT AREA:**

Palm Desert National Bank’s assessment area consists of 14 census tracts that are part of the Riverside-San Bernardino Metropolitan Statistical Area (MSA) 6780. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. A description of the area follows.

**PALM DESERT NATIONAL BANK  
ASSESSMENT AREA  
COMPOSITION BY INCOME LEVEL OF CENSUS TRACTS**

<b>Census Tract Type</b>	<b># Tracts</b>	<b>% Tracts by #</b>
<b>Low Income</b>	0	0%
<b>Moderate Income</b>	6	42%
<b>Middle Income</b>	4	29%
<b>Upper Income</b>	4	29%
<b>Total</b>	14	100%

The assessment area is in the Coachella Valley in the central part of Riverside County. It consists of all census tracts in the unincorporated area of Bermuda Dunes and the following seven cities: Palm Desert, Rancho Mirage, Indian Wells, Indio, Cathedral City, Coachella, and La Quinta. The area population is approximately 149,435. Median family income is \$46,500 according to the Housing and Urban Development office, and median housing value is \$146,730 according to 1990 U.S. Census data. Including seasonal residents, the population can nearly double during winter months because of the area's mild winter climate, leisure activities, and various popular sporting events.

The economy is centered in tourism and agriculture. The Coachella Valley is one of the fastest growing geographical areas in California. Tourism has been the major growth factor, spurred especially in recent years by the improving economy. As a result, major retail, restaurant, and hotel chains have located in the area. According to recent economic reports, growth is expected to continue into the year 2000 and most likely accelerate because of the climate and central location of the Valley. A variety of service and small retail businesses immediately surround the bank's office. The tribal lands of the Cabazon Band of Mission Indians are located within the assessment area. The banking environment is highly competitive with several independent community banks and branches of multinational and regional banks throughout the assessment area.

We contacted a local economic development agency and determined that there is an ongoing need for small loans with flexible underwriting criteria for businesses. We also contacted a local Native-American development agency. They reported a need for financing of business enterprises on tribal lands.

**CONCLUSIONS WITH RESPECT TO 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 ratio meets the standards for satisfactory performance. The average loan-to-deposit ratio over the last eight quarters is 64%. This compares favorably with the performance of other local financial institutions with total assets of less than \$150 million. Their average ratio over the same period is 61%. While the bank's ratio ranged slowly downward from 77% in September 1996 to 60% in June 1998, the most recent ratio is still comparable with the performance of other local banks.

**Lending in the Assessment Area**

Lending in the assessment area meets the standards for satisfactory performance. The bank originated a majority of the *number* and *dollar amount* of loans within the assessment area. The following chart reflects lending since the last examination. We used the bank's internal analysis, which we tested for accuracy.

**LENDING INSIDE AND OUTSIDE  
OF ASSESSMENT AREA  
TOTAL LOAN ORIGINATIONS FROM OCTOBER 1996 TO NOVEMBER 1998**

	# Loans	% Loans by #	\$ Loans	% Loans by \$
<b>In Assessment Area</b>	449	71%	46,453,737	71%
<b>Out Of Area</b>	186	29%	18,773,317	29%
<b>Total</b>	635	100%	65,227,054	100%

**Lending to Borrowers of Different Income Levels and to Businesses of Different Sizes**

Lending to businesses of different sizes and borrowers of different income levels meets the standard for satisfactory performance. This is reflected in the charts that follow. Results show that the bank serves the community by making small loans to small businesses - an identified credit need. For business lending by loan size, we used the bank's analysis, which we tested for accuracy. Favorably, 72% of the number of loans were for amounts of less than \$100,000. For lending to businesses of different sizes, we randomly sampled 28 commercial loans. Favorably, the bank granted 86% of the number of loans sampled to businesses with annual revenue of less than \$1 million. The sample represents approximately 10% of the number of loans originated during the period under analysis.

**DISTRIBUTION OF BUSINESS LENDING BY LOAN SIZE  
LOAN ORIGINATIONS FROM OCTOBER 1996 TO NOVEMBER 1998**

<b>Business Loan Originations</b>	<b># Business Loans</b>	<b>% Business Loans (#)</b>	<b>Dollar Volume Business Loans</b>	<b>% Business Loans Dollar Volume</b>
<b>\$0 - \$100,000</b>	200	72%	7,714,692	18%
<b>\$100,001 - 250,000</b>	40	15%	5,881,078	13%
<b>\$250,001 - \$1 Million</b>	31	11%	13,750,140	31%
<b>\$1 Million +</b>	6	2%	16,500,000	38%
<b>Total</b>	277	100%	43,845,910	100%

**LENDING TO BUSINESSES OF DIFFERENT SIZES  
SAMPLE OF LOAN ORIGINATIONS  
OCTOBER 1996 TO NOVEMBER 1998**

	<b># Business Loans Sampled</b>	<b>% Total (#)</b>	<b>\$ Business Loans</b>	<b>% Total (\$)</b>
<b>Loans to Small Businesses (Revenue &lt; \$1 Million)</b>	24	86%	2,024,000	78%
<b>Loans to Large Businesses (Revenue &gt; \$1 Million)</b>	4	14%	555,000	22%
<b>Total Business Loans Sampled</b>	28	100%	2,579,000	100%

The bank's investment in a local community development corporation (CDC) enhances its record of business lending in the community. Using flexible underwriting criteria, the CDC provides pooled loan funds to help meet the credit needs of area small businesses. The bank invested \$10,000 in the CDC capital fund during 1997 and contributed a total of \$60,000 to the loan pool during 1997 and 1998. Bank senior management has also provided active support by serving on the CDC's Board of Directors and loan committee. To help meet identified community credit needs as previously

described, the bank funded a \$5.5 million loan during 1998 to a local Native American tribe for a tire recycling business on tribal land.

We conducted a random sample of consumer loan originations to verify lending to borrowers of different income levels. We sampled 25 loans, representing about 15% of consumer loans by number and 14% by dollar amount, originated during the period under analysis. Favorably, the bank granted 40% of the number of loans sampled to low-income borrowers. The following chart reflects the bank's consumer lending activity.

**CONSUMER LENDING IN ASSESSMENT AREA  
BY BORROWER INCOME LEVEL BASED ON SAMPLE**

<b>Family Income Level</b>	<b>% of Assessment Area</b>	<b>Consumer Loans(#)</b>	<b>% of Consumer Loans (#)</b>	<b>Consumer Loans (\$)</b>	<b>% of Consumer Loans (\$)</b>
<b>Low</b>	22%	10	40%	102,751	29%
<b>Moderate</b>	19%	7	28%	80,950	23%
<b>Middle</b>	20%	3	12%	106,881	29%
<b>Upper</b>	39%	5	20%	66,300	19%
<b>TOTALS</b>	100%	25	100%	356,882	100%

Note: Consumer loans are defined in the regulation as loans to individuals for personal uses.

**Geographic Distribution of Loans**

The geographic distribution of loans does not meet the standard for satisfactory performance. Lending activity does not reasonably reflect the moderate-income demographics of the assessment area. This results mainly from the fact that the geographies within a five-mile radius surrounding the bank are middle- and upper-income. Moderate-income level tracts are furthest from the bank's location, and there are several other banks in those areas that serve credit needs. However, the bank's strategic plan includes increasing loan activity in moderate-income areas primarily through construction loans and lending to small businesses. The chart below compares the bank's loan originations with the percentage of various income level census tracts that comprise the assessment area. We used the bank's analysis, which we tested for accuracy.

**LENDING IN ASSESSMENT AREA - BY CENSUS TRACT TYPE**

<b>Census Tract Income Type</b>	<b>% of Assessment Area</b>	<b>Loans in Tracts (#)</b>	<b>% of Loans (#)</b>	<b>Loans in Tracts (\$)</b>	<b>% of Loans (\$)</b>
<b>Low</b>	0%	0	0%	0	0%
<b>Moderate</b>	42%	15	3%	1,383,656	3%
<b>Middle</b>	29%	145	32%	13,656,302	29%
<b>Upper</b>	29%	289	65%	31,413,778	68%
<b>TOTALS</b>	100%	449	100%	46,453,736	100%

**RESPONSE TO COMPLAINTS**

The bank has received no CRA-related complaints since the last CRA performance evaluation.

**FAIR LENDING ANALYSIS**

The bank is in compliance with Fair Lending laws and regulations. Our Fair Lending review, conducted along with this examination, found no unusual patterns or discriminatory lending practices.