



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

July 24, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

San Dieguito National Bank
Charter Number 16930

135 Saxony Road
Encinitas, California 92924

Comptroller of the Currency
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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 (CRA) performance of San Dieguito National Bank prepared by the Office of the Comptroller of the Currency, the institution's supervisory agency, as of July 24, 1996. 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 "outstanding."

This rating is supported by the bank's significant efforts to provide needed credit products and services to very small businesses. Additionally, it has worked to support various community development organizations which provide unique services to underserved and disadvantaged groups in its community. The bank has taken a broad approach in their commitment to the community. This is demonstrated by excellent lending services in support of small business, supporting the development of this business sector, while also identifying and addressing other needful issues in the community with meaningful loans and services.

The following table indicates the performance level of San Dieguito National Bank with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	San Dieguito National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does Not Meet Standards for Satisfactory Performance
Loan-to-Deposit Ratio	X		
Lending in Assessment Area		X	
Lending to Borrowers of Different Incomes and to Businesses of Different Sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints		NA	

DESCRIPTION OF INSTITUTION:

San Dieguito National Bank (San Dieguito NB) opened in 1980. At May 1996 the bank's asset size was \$55 million with total loans of \$37 million. The bank's two full-service branches are located in Carlsbad and Encinitas. Both branches offer 24-hour banking services through onsite ATMs. The bank also provides access to funds through the extensive Star and Exchange networks. San Dieguito NB's lending strategy focuses on small businesses. The bank only makes consumer loans on an accommodation basis to its commercial borrowers. The loan portfolio at March 1996 reflects the business focus with commercial loans at 77% and consumer loans at 23%.

The bank offers credit products consistent with its financial condition, size, and business strategy. This takes into account the condition of the local economy. San Dieguito NB's financial condition restricted its ability to originate many loans over the last few years. In 1992, the OCC placed the bank under a Formal Agreement after the bank lost \$1 million in 1991. To meet the Formal Agreement's capital requirements the bank reduced its asset size from \$81 million at December 1992 to \$55 million at June 1995. The bank's loan production ability had improved by year-end 1995 because of reduced problem assets, removal of the Formal Agreement, a change in ownership at the holding company level, and a capital infusion. San Dieguito NB reported from January 1995 to February 1996, 126 new loans totaling approximately \$8 million.

DESCRIPTION OF THE BANK'S NORTH COUNTY ASSESSMENT AREA:

The bank's assessment area includes the coastal communities of La Jolla, Del Mar, Solana Beach, Encinitas, Carlsbad and Oceanside, as well as the inland communities of Rancho Santa Fe, Vista, Lake San Marcos and San Marcos, all within the San Diego MSA. The assessment area does not arbitrarily exclude low- or moderate-income geographies (census tracts). The Encinitas branch is located in a middle income geography while the Carlsbad branch is located in a moderate income geography. The bank's assessment area has a population of 626M with a median family income of \$45,400. The assessment area's ninety geographies consist of: two low-, twelve moderate-, thirty-nine middle-, and thirty-seven upper-income census tracts. The area's larger employers comprise a diverse group including service-related, retail, high-technology, agriculture, manufacturing, construction, finance, insurance, and real estate industries. Banking services are highly competitive with numerous independent and branch-banking systems represented in the area.

We contacted two community-based organizations during our examination. These organizations are involved in housing and redevelopment (municipal government agency) and housing (non-profit). Through these contacts we noted the need for loans to provide affordable housing. The non-profit organization also explained that the migrant farm workers, as well as many other low-income individuals, have a need to cash checks. Presently these individuals use expensive check cashing facilities since they do not have a bank account. In addition, through other recent community contacts we noted the need for small business loans, including micro, start-up, and expansion loans.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

San Dieguito NB's loan-to-deposit ratio is strong especially considering its financial condition over the last few years. Since the March 1993 CRA examination, the bank's loan-to-deposit ratio has averaged 78%. Over the last eight quarters the bank's ratio averaged 77% compared to 70% for other similarly situated banks. The bank maintained the higher ratio despite the competitive disadvantage of the Formal Agreement's capital requirement. We considered the following institutions in our comparison: The Bank of Rancho Bernardo, Capital Bank of North County, First National Bank of North County, Rancho Vista National Bank, Rancho Santa Fe National Bank, and Fallbrook National Bank. We chose these banks because they are local, competitive banks and are of similar asset size.

Lending in Assessment Area:

San Dieguito NB's performance in lending within their assessment area is satisfactory. The findings of two studies show the majority of the bank's loans are within its assessment area. The following graph provides a summary:

Time Frame	Percentage of Loans Within the Assessment Area
1995 Outstanding Loan Portfolio	80%
Sampled 1995/1996 Commercial Originations	81%
Sampled 1995 Consumer Originations	80%

At the end of the third quarter 1995, a bank-hired consultant found 80% of the outstanding loan portfolio within the bank's assessment area. Validating that information, we sampled 31% of the combined 1995 and year-to-date February 1996 commercial originations and found 81% within the assessment area. In addition, we sampled 37% of the 1995 consumer renewals or originations and found 80% within the assessment area.

Lending to Businesses of Different Sizes:

The bank exceeds the satisfactory performance criteria by providing a full range of small business loans. In addition, through community development organizations the bank provides non-conventional small business loans and affordable housing loans. Additionally, the bank assisted

community development organizations by providing them term real estate and operating fund loans. We determined the bank makes loans to businesses of all sizes with a concentration in very small business loans. All of the bank's commercial loans qualify as small business loans; loan originations of one million dollars or less. However, as the following table illustrates, the bank focusses primarily on business loans of less than \$100,000. The following table shows the size range of small business loans within the bank's portfolio:

Loan Size	Number of Loans
\$100,000 or Less	237
\$100,001 - \$250,000	51
\$250,001 - \$500,000	36
Greater than \$500,000	3

And after evaluating the size of the businesses, we determined that 75% of the sampled loans were to businesses with gross revenues of one million dollars or less. The following table shows the size and number of loans in relation to the gross revenue size of the business in our sample of loan originations granted in 1995 and year-to-date February 1996.

Businesses' Gross Revenue	No. (#) of Loans	Percentage of #	Amount (\$)	Percentage of \$	Size of Loans
< \$100M	1	5%	\$445M	21%	\$445M
\$101M - \$400M	6	30%	\$411M	19%	\$4M - \$250M
\$401M - \$700M	5	25%	\$437M	21%	\$15M - \$162M
\$701M - \$1MM	3	15%	\$190M	9%	\$40M - \$100M
> \$1 Million	5	25%	\$640M	30%	\$20M - \$350M
Sample Totals	20	100%	\$2,123M	100%	\$4M - \$445M

Since the last CRA evaluation, the bank has provided the following small business loans through two community development corporations. These loans exhibit the bank's flexible lending practices in their attempt to serve the low- and moderate-income areas. The California Southern Small Business Development Corporation (CA Southern) obtains State of California loan guarantees for small businesses in underserved, low- and moderate-income communities. The bank originated \$303M or seven of these loans enabling CA Southern to place additional small business loans. The assessment area contains 97 percent of these guaranteed loans. For the last 5 years the bank committed \$10M annually to the Bankers Small Business Community Development Corporations' (Bankers CDC) loan pool. This is a small business development organization which provides a variety of services to develop new business, with its micro-loan

pool as only one element of the organization (see Investment and Services). Presently the Corporation has a balance of \$5M of the bank’s funds in 19 loans to businesses in underserved San Diego County geographies.

In addition, the bank provides small business loans through the Small Business Administration (SBA) program. In June of 1995, the SBA ranked San Dieguito NB second in providing small business loans of less than \$250M. The ranking is for banks under \$100 million in asset size in San Diego County. To obtain this ranking the bank had 199 outstanding small business loans for \$5 million, many of which have been originated since the bank’s last CRA PE.

The bank provides support to affordable housing needs through three community development groups operating within its assessment area. The following loans have been granted since the bank’s last CRA evaluation. The Community Resource Center provides transitional housing and job training for low-income families. The bank provided this organization a loan of \$323M for the transitional housing, and a loan of \$37M for operating costs. T.E.R.I. Inc. provides affordable housing and training for severe mentally-challenged individuals in the assessment area. The bank provided a long-term loan of \$241M for the living facility. The Rural Area Non-Profit Community Housing Organization (RANCHO) provides local migrant farm workers with affordable housing. The bank provided RANCHO an operating line of credit of \$10M.

The bank makes consumer loans as an accommodation to its commercial borrowers. Therefore, consumer lending is not a primary bank product. We found the bank’s current lending pattern includes loans to borrowers in all income category. Our consumer loan sample also noted a reasonable volume of loans made to lower- and moderate-income borrowers. The sample showed loan extensions of 15% to low-, 15% to moderate-, 5% to middle-, and 65% to upper-income borrowers. This compares to 15% low-, 16% moderate-, 22% middle-, and 47% upper-income families in the bank’s assessment area. This distribution of loans to low- and moderate-income borrowers compares favorably to the composition of family-income categories within the bank’s assessment area.

Geographic Distribution of Loans:

The geographic distribution of loans reflects a reasonable dispersion throughout the assessment area. The bank’s assessment area consists primarily of middle- and upper-income geographies, with only 2 low- and 12 moderate-income tracts out of a total of 90 tracts. The percentage of loans made in each income geography is generally proportionate to the percentage of geographies for each income category. The bank made loans by geographies as follows:

Geographies by Income	Percentage of Geographies	Number of Loans	Percentage of Loans
Low	2%	12	3%
Moderate	13%	39	9%

Geographies by Income	Percentage of Geographies	Number of Loans	Percentage of Loans
Middle	44%	145	33%
Upper	41%	245	55%

Response to Complaints:

The bank has not received any CRA-related complaints.

Discriminatory Practices:

We found no evidence of any prohibited practices in our review. Our 1996 compliance examination's review of denials found no evidence of prohibited discriminatory or other illegal credit practices. In addition, we did not detect any practices that would discourage applications for the types of credits offered by the bank.

Investments:

The bank invested \$2.5M in the Bankers Small Business Community Development Corporation in addition to loans and services it provides this small business support group,. The investment helped capitalize this local, San Diego development corporation. This organization provides non-bankable small business loans and services to underserved low- and moderate-income geographies.

Services:

As previously indicated, the bank has located its 2 branches in moderate- and middle- income geographies, and is fully accessible to all elements of the community. The bank is open 6 days per week and it offers 24-hour banking services through onsite ATMs. It has not opened or closed any branches during this rating period. Following its business strategy the bank's outreach, lending, and services focus on its community's small business needs. In addition, as described below, the bank provides significant leadership and technical expertise to community organizations:

- o The bank's CRA officer, as a founding and continuing director, helped form the Bankers CDC, the first such Southern California organization. This local bank cooperative provides financing to San Diego's small businesses who cannot meet the requirements of conventional loan programs. Along with the financing, the CDC ensures the borrowers also receive basic business skills such as accounting, financial statements preparation, taxation guidance, and business planning.

- o The bank's CRA officer also provides his technical expertise to CA Southern as a member of its loan committee. CA Southern provides small businesses with management and technical assistance, as well as access to financing.
- o Another bank official, as an active board member and former chairman, provided his technical banking experience to develop the Community Resource Center. The Center provides services, counseling and job training as well as transitional housing for low- and moderate-income individuals and families.

As a result of determining that there were segments of the community with unmet special needs, the bank provides some services to non-banking consumers. Through its involvement in RANCHO and other community groups the bank learned of farm workers' and low- and moderate-income individuals' need for access to and knowledge of banking services. To fulfill these needs the bank provides:

- o Free payroll check cashing for 200 employees of a local herb farm. These individuals do not normally have an account with a bank and would have to pay a check cashing facility for this service;
- o Free tax refund check cashing for individuals without checking accounts, who used the services of the Solana Beach H & R Block; and
- o School savings programs at several assessment area schools which teach the value of planning and savings, as well as exposing the students to general banking services. The programs cover a school in a moderate-income geography, with a high proportion of low- and moderate- income and minority population.