



## **PUBLIC DISCLOSURE**

June 23, 2014

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

First National Bank of Southern California  
Charter Number 18242

3727 Arlington Avenue  
Riverside, CA 92506

Office of the Comptroller of the Currency

1551 North Tustin Avenue  
Suite 1050  
Santa Ana, CA 92705

**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."**

The major factors that support this rating include:

- The bank's loan-to-deposit (LTD) ratio is reasonable given the institution's size, financial condition, and business strategy.
- The bank originated a majority of its loans within its delineated assessment areas (AAs).
- Lending among borrowers of different income levels, given the bank's product mix, reflects reasonable penetration.
- The geographic distribution of loans reflects reasonable dispersion.

### **Scope of Examination**

This examination assesses the CRA performance of First National Bank of Southern California (FNBSC or bank) using the lending test criteria for small bank examinations. We performed a full-scope examination of the bank's Riverside and San Diego County AAs. We evaluated a random sample of commercial loans from January 1, 2012, through December 31, 2013. We focused our review on commercial loans because they represent most of the bank's lending activity.

### **Description of Institution**

FNBSC is a full-service commercial bank headquartered in Riverside, California. The bank was a wholly-owned subsidiary of Duke Financial Group, Inc., a multi-bank holding company based in Minneapolis, Minnesota, until it was sold to private investors on March 6, 2014.

FNBSC currently has one branch in a moderate-income census tract in the City of Riverside. This branch also serves as the bank's main office. The bank has four additional branches located in San Diego County, one in each of the following four cities: Fallbrook (middle-income census tract); Carlsbad (middle-income census tract); San Marcos (upper-income census tract); and Vista (moderate-income census tract). Both the Fallbrook and Vista branches officially closed on June 30, 2014, as part of cost-saving measures.

FNBSC operates as a typical business bank, offering general commercial banking services to entrepreneurs, commercial businesses, and professionals in southern California and other geographic regions in which the bank has market knowledge and experience. The bank's business strategy focuses on commercial lending, and the bank's current loan portfolio is primarily composed of commercial loans.

As of March 31, 2014, FNBSC reported total assets of \$177 million, total loans of \$54 million, total deposits of \$152 million, and total equity capital of \$24 million. Total loans represented approximately 30 percent of total assets. The following chart summarizes the loan portfolio by major product types.

<b>FNBSC Outstanding Balances by Major Product Type as of March 31, 2014</b>		
Loan Type	(\$000's)	Percent
Commercial RE	48,291	89.6%
Commercial-Industrial	1,994	3.7%
1-4 Family Residential RE	1,417	2.6%
Construction	991	1.8%
Multifamily Residential RE	864	1.6%
Consumer	295	0.6%
Other	23	0.1%
<b>Total</b>	<b>53,875</b>	<b>100%</b>

There are currently no financial or legal factors that impede the bank’s ability to help meet the credit needs of the communities it serves. However, during much of the evaluation period, the bank operated under a Formal Agreement relating to safety and soundness concerns, which required time, staff effort, and financial resources to correct certain deficiencies. We considered these context factors in reaching our conclusions concerning the bank’s CRA performance.

FNBSC received a “Satisfactory” rating under the “Small Bank” rating criteria at the prior CRA examination in May 2009.

## **Description of AAs**

FNBSC has designated two AAs. One is Riverside County and the other is the San Diego-Carlsbad Metropolitan Statistical Area (MSA), also referred to as the San Diego County AA. The AAs meet regulatory requirements, have whole census tracts, and do not arbitrarily exclude low- or moderate-income geographies.

### Riverside County AA

Riverside County covers 7,208 square miles and is the fourth most populous county in California. The 2010 U.S. Census indicates a population of 2.2 million. The AA includes 28 incorporated cities, 64 unincorporated areas, and 12 federally-recognized Indian reservations. Riverside County is bounded by Orange County on the west, the state of Arizona to the east, San Diego County to the southwest, Imperial County to the southeast, and San Bernardino County to the north. FNBSC helps meet community credit needs in the Riverside AA through the main branch located in Riverside.

Economic output and employment in Riverside County is distributed among various sectors. The leading industries include state and local governments, restaurants, employment services, general medical and surgical hospitals, grocery stores, and the military. The major employers in the AA include Stater Brothers Markets, U.S. Marine Corps Air Ground Combat Center, Fort Irwin, Loma Linda University, and Wal-Mart Stores, Inc.

Riverside County has struggled economically in recent years due to the effects of the recent recession and housing crisis. Moody's Analytics reported that the county's recovery improved at the end of 2013. The reviving consumer services sector more than offset the cuts at medical device plants and downsizing by mortgage lenders. Further, the metro area continues to benefit from expanding distribution centers. Riverside County's recovery is expected to broaden during 2014 with expansion in housing, transportation, and warehousing. However, improvement in the status of local governments may trail other economic improvements due to possible government job and spending cuts.

According to RealtyTrac, the Inland Empire area (combined counties of Riverside and San Bernardino) had 2,515 properties with foreclosure filings in February 2014. The Inland Empire ranked fourth in the country for large metro area foreclosure rates. However, foreclosures decreased 24 percent from the previous year.

The California Employment Development Department (EDD) reported the May 2014 unemployment rate for Riverside County fell to 8 percent. However, three communities (Desert Hot Springs, Coachella, and Mecca) exceeded 10 percent unemployment rates. The Riverside AA remains above the 7.1 percent California State and 6.3 percent national unemployment rates.

We reviewed one community contact for an organization in the AA. The organization we reviewed is the largest HUD-approved housing and credit counseling service on the West Coast, providing first-time homebuyer, foreclosure, credit, debt, and bankruptcy counseling services. It also provides financial literacy classes for residents throughout its service areas. The organization is the lead agency in several initiatives, including the Inland Empire Saves initiative (part of America Saves) and the Preserving Earning and Acquiring Real Life Skills (PEARLS) initiative for low-income women. It also partners with the United Way of the Inland Valleys to provide financial counseling for foster youth becoming emancipated from the social welfare system. The organization indicates that Riverside County was seriously impacted by the recession, and there are CRA opportunities for financial institutions in the areas of community development services and investments (grants).

### San Diego County AA

San Diego County is the second most populous county in California. The 2010 U.S. Census indicates a population of 3.1 million. The AA includes 18 incorporated cities, 68 unincorporated areas, and 18 federally recognized Indian reservations. San Diego

County is the southernmost county in California and is bounded by Orange and Riverside counties to the north, Imperial County to the east, the Pacific Ocean to the west, and Mexico to the south. FNBSC helps meet community credit needs in the AA through branches located in San Marcos, Carlsbad, Vista, and Fallbrook.

San Diego County is a thriving innovation hub for the telecommunications, medical device, and biotechnology industries. San Diego County also has a significant high-tech manufacturing sector and is a popular travel destination. The county's major industries include state and local governments, military, restaurants, federal government, scientific research and development, and hospitality. The major employers include the Marine Corps Base Camp Pendleton, Naval Base Coronado, North Island NAS, Naval Base San Diego, University of California San Diego, Sharp Health Care, Scripps Health, and Qualcomm, Inc.

Moody's Analytics reported that San Diego County's recovery strengthened at the end of 2013 as construction and consumer spending increased along with improved state and local government budgets. Additionally, total payrolls continue to increase despite declines in mortgage lending and federal government jobs. The recovery is expected to continue to improve through 2014 as visitor-dependent and housing-related industries strengthen and deferred military spending resumes.

RealtyTrac reported that San Diego County had 991 properties with foreclosure filings in February 2014, which placed the AA tenth in the country for large metro area foreclosure rates. However, the foreclosures decreased 24 percent from February 2013.

The California EDD reported that the unemployment rate in San Diego County was 5.8 percent in May 2014, which compared favorably to the 7.1 percent California State and the 6.3 percent national unemployment rates.

We contacted one community group and reviewed two community contacts that were recently performed in the AA. One community development (CD) organization focuses on expanding housing and real estate investments, increasing family income, and stimulating economic development. Another organization focuses on providing services primarily to low- and moderate income (LMI) individuals. The third organization focuses on providing services to LMI youth. The organizations indicated where there are needs to provide affordable home purchase loans to LMI individuals and to support CD services. One contact noted that various nonprofit organizations meet CD needs through providing services in a number of different languages. However, the contact said that funding for many community-based organizations has been impacted by the current economic environment.

## Conclusions with Respect to Performance Tests

Based on our random sample of commercial loans, the bank’s performance in meeting the credit needs of the community is “Satisfactory.” During the evaluation period, FNBSC made a majority of its loans to borrowers in its designated AAs. The bank has reasonable penetration among businesses of different sizes and reasonable geographic dispersion throughout the AAs. The LTD ratio is reasonable given the bank’s size and performance context. Each of the areas considered in the lending test is described below.

### LTD Ratio

FNBSC’s LTD ratio is reasonable given the bank’s size, financial condition, and local economic conditions, and meets the standard for satisfactory performance. We evaluated the bank’s quarterly average LTD ratio for the 20 quarters since the prior CRA examination through December 31, 2013. During this period, the bank’s LTD ratio averaged 77 percent and ranged from a quarterly low of 43 percent to a quarterly high of 103 percent. The bank’s LTD ratio reasonably compares with four other similarly situated banks. The average LTD ratio for these four banks was 70 percent over the same period, and the ratio ranged from a quarterly low of 57 percent to a quarterly high of 89 percent.

### Lending in AAs

FNBSC granted a majority of the number and dollar volume of loans inside its delineated AAs, which meets the standard for satisfactory performance. The bank granted 80 percent of the number of loans and approximately 84 percent of the dollar volume within its delineated AAs during our evaluation period. See Table 1 for details.

Loan Type	Number of Loans					Dollars of Loans (\$000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	16	80	4	20	20	9,327	84	1,749	16	11,076

*Source: Sample of 20 commercial loans originated from January 2012 through December 2013.*

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

The bank’s overall distribution of loans to businesses of different sizes reflects reasonable penetration compared to area demographics and meets the standard for satisfactory performance.

#### *Performance in the Riverside AA*

The bank’s distribution of loans to businesses of different sizes reflects reasonable penetration. The percentage of businesses with revenues of \$1 million or less within

the AA is approximately 74 percent. Based on our sample of 20 loans within the AA, the bank originated 70 percent of its loans by number, and approximately 72 percent by dollar volume, to these businesses. The percentages are near the demographic comparator, which indicates the bank is responsive to the credit needs of the businesses in the area. See Table 2a below for details.

<b>Table 2a - Borrower Distribution of Loans to Businesses in Riverside County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	74.3	3.4	22.3	100%
% of Bank Loans in AA by #	70.0	30.0	0.0	100%
% of Bank Loans in AA by \$	71.6	28.4	0.0	100%

Sources: 2010 U.S. Census data. Random sample of 20 commercial loan originations from January 2012 through December 2013.

### *Performance in the San Diego AA*

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration. The percentage of businesses with revenues of \$1 million or less within the AA is approximately 73 percent. Based on our sample of 16 loans within the AA, the bank originated approximately 81 percent of its loans by number, and approximately 66 percent by dollar volume, to these businesses. The percentages overall are near the demographic comparator, which indicates the bank is responsive to the credit needs of the businesses in the area. See Table 2b below for details.

<b>Table 2b - Borrower Distribution of Loans to Businesses in San Diego County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/ Unknown	Total
% of AA Business	72.7	3.9	23.4	100%
% of Bank Loans in AA by #	81.2	18.8	0.0	100%
% of Bank Loans in AA by \$	65.7	34.3	0.0	100%

Sources: 2010 U.S. Census data. All 16 commercial loan originations from January 2012 through December 2013.

### **Geographic Distribution of Loans**

The geographic distribution of FNBSC's commercial loans reflects overall reasonable dispersion throughout the AAs compared to area demographics and meets the standard for satisfactory performance.

### *Performance in the Riverside AA*

The geographic distribution for commercial loans reflects overall reasonable dispersion in the Riverside AA. FNBSC's lending to businesses in moderate-income census tracts exceeds the demographic data for the AA. The bank's lending to businesses in low-income census tracts is lower than the demographic data for the AA. However, the bank's opportunities to make commercial loans in low-income geographies is limited by

the low percentage of small businesses located in these geographies (less than three percent). See Table 3a below for details.

<b>Table 3a - Geographic Distribution of Loans to Businesses in Riverside County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loans	2.7	0.0	23.6	35.0	33.4	60.0	40.3	5.0

Sources: 2010 U.S. Census data. Random sample of 20 loan originations from January 2012 through December 2013.

### Performance in the San Diego AA

The geographic distribution for commercial loans reflects overall reasonable dispersion in the San Diego AA. FNBSC’s lending to businesses in moderate-income census tracts exceeds the demographic data for the AA. The bank’s lending to businesses in low-income census tracts is lower than the demographic data for the AA. However, the bank’s opportunities to make commercial loans in low-income geographies is limited by the low percentage of small businesses located in these geographies less than six percent). See Table 3b below for details.

<b>Table 3b - Geographic Distribution of Loans to Businesses in San Diego County AA</b>								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Commercial Loans	5.8	0.0	15.6	25.0	35.4	6.3	43.1	68.7

Sources: 2010 U.S. Census data. All 16 loan originations from January 2012 through December 2013. (Note: 0.12 percent of geographies have not been assigned an income classification.)

### Responses to Complaints

The bank did not receive any complaints about its CRA performance during the evaluation period.

### Fair Lending or Other Illegal Credit Practices Review

Pursuant to 12 CFR 25.28(c), or 12 CFR 195.28(c), in determining a national bank’s or Federal savings association’s (FSA) CRA rating, respectively, the OCC considers evidence of discriminatory or other illegal credit practices in any geography by the bank or FSA, or in any AA by an affiliate whose loans have been considered as part of the bank’s or FSA’s lending performance.

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.