



## **PUBLIC DISCLOSURE**

May 27, 2014

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

South County Bank, National Association  
Charter Number 23801

22342 Avenida Empresa  
Rancho Santa Margarita, CA 92688

Office of the Comptroller of the Currency  
Santa Ana Field Office  
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 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.
- The geographic distribution of loans reflects excellent dispersion.
- Lending among borrowers of different income levels, given the bank's product mix, reflects reasonable penetration.

**Scope of Examination**

This examination assesses the Community Reinvestment Act (CRA) performance of South County Bank, N.A. (SCB or bank) using the lending test criteria for small bank examinations. The bank's evaluation period was May 29, 2007 to May 17, 2014. We performed a full-scope examination of the bank's Orange County assessment area (AA). We selected Orange County for a full-scope review given the significance of this AA to the bank in terms of deposits and lending volume. A limited-scope review was performed on the Riverside-San Bernardino AA. To assess the bank's lending performance, we evaluated a random sample of commercial loans from January 1, 2012 through December 31, 2013 (sample period). We focused our review on commercial loans because they represented the bank's primary product based on the number and dollar volume of loan originations during the sample period.

**Description of Institution**

SCB is a full-service community bank headquartered in Rancho Santa Margarita, California. SCB opened for business in October 1999. The bank is wholly owned by Cal West Bancorp, a single-bank holding company.

The bank has a main office in Irvine, California and three branch offices located in Irvine, Huntington Beach, and Redlands, California. The Huntington Beach branch operates under the name of Surf City Bank, a division of SCB. The Redlands branch operates as Inland Valley Bank, a division of SCB. The four offices offer traditional deposit products to both businesses and consumers. SCB offers a variety of commercial loan products to meet the needs of small- and mid-size businesses with an emphasis on commercial real estate and commercial-industrial lending. The bank maintains three automatic teller machines (ATM) located at Rancho Santa Margarita, Huntington Beach, and Concordia University in Irvine. The bank also offers online banking services on its internet website.

As of December 31, 2013, SCB reported total assets of \$143 million, total loans of \$63 million, total deposits of \$136 million, and total equity capital of \$7 million. Total loans represented approximately 44 percent of total assets. The following chart summarizes the loan portfolio by major product types.

<b>South County Bank, N.A. Outstanding Balances by Major Product Type as of December 31, 2013</b>		
<b>Loan Type</b>	<b>(\$000's)</b>	<b>Percent</b>
Commercial RE	27,662	43.7%
Commercial-Industrial	14,174	22.4%
1-4 Family Residential RE	9,149	14.5%
Multifamily Residential RE	6,522	10.3%
Construction	5,090	8.0%
Consumer	666	1.1%
<b>Total</b>	<b>63,263</b>	<b>100,0%</b>

SCB received an “Outstanding” rating under the “Small Bank” rating criteria at the prior CRA examination dated May 29, 2007.

## **DESCRIPTION OF ASSESSMENT AREA**

SCB has designated Orange County (OC) as its primary AA. The bank obtained 92 percent of its deposits and originated 93 percent of its loans in this AA. OC is primarily an urban area, with 34 incorporated cities and several unincorporated areas, which forms the Santa Ana-Anaheim-Irvine Metropolitan Division. The bank’s AA meets the requirements of the regulation and does not arbitrarily exclude low- and moderate-income geographies.

OC is the third largest county in California by population and covers 789 square miles of land. The estimated population is 3 million based on the 2010 U.S. Census. OC has extensive transportation facilities including airports, railroads, and freeways. The freeway system connects the county’s labor force to employment centers in Los Angeles as well as providing extensive access within county borders. The county has 42 miles of southern California coastline with nine public beaches. The neighboring counties include Los Angeles County to the north, San Diego County to the south, and Riverside and San Bernardino Counties to the east.

OC consists of 583 census tracts: 6 percent are low-income, 26 percent are moderate-income, 33 percent are middle-income, 34 percent are upper-income tracts, and one percent has not been assigned an income classification. The low- and moderate-income tracts are located mainly in the central and northwestern parts of the county. The 2010 Census median housing value was \$598,487. According to DQNews, the median home price in April 2014 was \$576,000. Approximately 57 percent of all housing units are owner-occupied. The FFIEC reported the median family income was \$84,100 for 2013. Approximately 9 percent of the households are living below the poverty level.

The County's economic output and employment is well distributed among the various sectors. OC is known for tourism with attractions such as Disneyland, Knott's Berry Farm, and several beaches. OC also is the headquarters for several Fortune 500 companies, including Ingram Micro, Inc.; First American Financial Corporation; Broadcom Corporation; Western Digital Corporation; and Pacific Life Insurance Company. Major employers include the Walt Disney Company, University of California – Irvine, St. Joseph Health System, Boeing Company, Kaiser Permanente, and Bank of America Corporation.

Technology, tourism, and the renewed housing-related industries are the primary drivers of improvements in the county's economy. Private job gains are broadening across industries, and local and state government payrolls are stabilizing. OC's labor force is expanding. According to the Bureau of Labor Statistics, the OC unemployment rate was 5.3 percent in December 2013. OC's unemployment rate is one of the lowest among California regional economies and well below the state unemployment rate of 8.7 percent.

There is strong competition for market share among local financial institutions, including several community banks and branches of larger nationwide banks. The most recent FDIC Deposit Market Share Report dated June 30, 2013, shows 91 institutions operating 699 offices in the OC AA. SCB operates three offices in OC and holds 0.15 percent deposit market share. The major competing institutions include Bank of America, Wells Fargo Bank, JPMorgan Chase Bank, U.S. Bank National Association, Union Bank, and Citibank. These banks collectively hold 66 percent of the deposit market share.

An OCC Community Affairs Officer participated on a conference call with several development organizations that provide credit resources to small businesses in underserved communities in Los Angeles and OC. The representatives stated that unemployment, while improving, continues to be a major issue. Small business financing and technical assistance are still needed. Affordable housing is a challenge, and foreclosure issues remain. There are asset-building needs, including financial literacy for individuals and business owners. Lastly, workforce development programs need funding.

## **Conclusions with Respect to Performance Tests**

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

SCB's loan-to-deposit (LTD) ratio is reasonable given the bank's size, financial condition, and local economic conditions. We evaluated the bank's quarterly average LTD ratio for the 26 quarters since the prior CRA examination through December 31, 2013. During this period, the bank's LTD ratio averaged 62 percent. This ratio ranged from a quarterly low of 39 percent to a quarterly high of 84 percent during the period. The bank's LTD ratio reasonably compares with the other four banks of similar asset size in the AAs. The average LTD ratio for its peer banks was 70 percent over the same period, and the ratio ranged from a quarterly low of 62 percent to a quarterly high

of 83 percent. While the bank’s average ratio was lower than the peer bank average, it meets the standard for satisfactory performance.

**Lending in Assessment Area**

SCB granted a majority of the number and dollar volume of loans inside its delineated AAs and meets the standard for satisfactory performance. The bank granted 70 percent of the number of loans and approximately 65 percent of the dollar volume within its delineated AAs during our evaluation period. See Table 1 for details.

<b>Table 1 - Lending in Defined Combined Assessment Areas</b>										
Loan Type	Number of Loans					Dollars of Loans (\$000's)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
Commercial Loans	14	70	6	30	20	5,998	65	3,254	35	9,252

Source: OCC commercial loan sample.

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

The bank’s overall distribution of loans to borrowers of different income levels reflects reasonable penetration compared to area demographics and meets the standard for satisfactory performance. The percentage of businesses with revenues of \$1 million or less within the AA is approximately 73 percent. Based on our sample of 20 loans within the AA, the bank originated 70 percent of their loans by number and approximately 80 percent by dollar volume to these businesses. The percentages are near the demographic comparator, which indicates the bank’s responsiveness to the needs of the businesses in the area. See Table 2 for details.

<b>Table 2 - Borrower Distribution of Loans to Businesses in Orange County AA</b>				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Business	73.1	5.1	21.8	100%
% of Bank Loans in AA by #	70.0	30.0	0.0	100%
% of Bank Loans in AA by \$	79.6	20.4	0.0	100%

Source: 2010 U.S. Census data. OCC commercial loan sample.

**Limited Scope AA**

SCB did not originate sufficient small loans to businesses in the limited-scope AA to perform a meaningful analysis. The bank originated three small loans to businesses in the Riverside-San Bernardino AA. Stiff competition and a limited presence in the AA made it difficult to generate loans during the sample period.

**Geographic Distribution of Loans**

The overall geographic distribution of SCB’s commercial loans reflects excellent dispersion throughout the AA compared to area demographics, and exceeds the

standard for satisfactory performance. The level of the bank's lending to businesses in low- and moderate-income census tracts compares favorably to area demographics. See Table 3 for details.

Table 3 - Geographic Distribution of Loans to Businesses in Orange County AA								
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	4.7	5.0	25.5	25.0	32.5	35.0	36.3	35.0

*Source: 2010 U.S. Census data. OCC commercial loan sample (Note: 1 percent of geographies have not been assigned an income classification.)*

**Limited Scope AA**

As noted above, SCB did not originate sufficient small loans to businesses in the limited-scope AA to perform a meaningful analysis.

**Responses to Complaints**

The bank has not received any complaints about its performance under the Community Reinvestment Act during the evaluation period.

**Fair Lending or Other Illegal Credit Practices Review**

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

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