



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Harbor National Bank
Charter Number 17546**

**34180 Pacific Coast Highway
Dana Point, CA 92629**

**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.

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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 an 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 **Harbor National Bank**, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of December 31, 2002. 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 "Satisfactory."

The primary factors supporting this rating are:

- The loan-to-deposit ratio is reasonable for the bank's size, financial condition, and area credit needs.
- The substantial majority of loans originated or purchased since the last CRA examination are within the bank's assessment area.
- Lending patterns reflect adequate penetration among businesses of different sizes. In particular, the bank grants small-sized loans to businesses, which is an identified community credit need.
- The geographic distribution of loans reflects compares reasonably with area demographics.

DESCRIPTION OF INSTITUTION

Harbor National Bank is a full-service commercial bank currently headquartered in Dana Point, California. At the time of the last CRA examination, the bank had only one office in Dana Point. Since then, the bank opened two more offices and changed its name from Dana Niguel Bank to its present name to more closely reflect its expanded presence in Orange County. The office in Newport Beach opened in June 2000, and the Anaheim office opened in October 2002. An application to establish the Newport Beach office as the bank's official headquarters was in process at the time of this CRA examination. Harbor National Bank provides community access to credit at all three Orange County locations, and it maintains an automatic teller machine at each office.

No financial or legal impediments hinder the bank's ability to meet the credit needs of the communities it serves. As of December 31, 2002, the bank had total assets of \$119 million, total loans of \$84 million (70% of total assets), and total deposits of \$106 million. The primary business focus is commercial lending. Commercial real estate, construction, and business loans comprise 94% of the total loan portfolio. The following table reflects the current loan portfolio by major product type.

**TOTAL LOANS OUTSTANDING BY MAJOR PRODUCT TYPE
AS OF DECEMBER 31, 2002**

Loan Product	Amount Outstanding (000's)	Percent (%) of Total Loans
Commercial Real Estate and Construction Loans	\$69,074	81%
Business Loans (Including SBA)	\$11,281	13%
Consumer Loans	\$2,975	4%
Residential Real Estate-Secured	\$1,484	2%
Total Gross Loans	\$84,814	100%

The last CRA evaluation conducted as of December 1997 rated the bank as "Satisfactory."

DESCRIPTION OF THE ASSESSMENT AREA

Harbor National Bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area consists of the entire Orange County Metropolitan Statistical Area (MSA) 5945.

The total population in the bank's defined area was 2,410,556 according to the 1990 United States Census (the 2000 Census data were not available for analysis at the time of this evaluation). Median housing value in the area was \$257,224 with 57% of total housing units owner-occupied. The following table reflects the area's census tracts by income category, and the population residing in the respective tracts according to the 1990 Census.

ORANGE COUNTY ASSESSMENT AREA CENSUS TRACT COMPOSITION

Census Tract Income Category	Number of Tracts In Area	Percent of Area by Tract Type	1990 Households	Percent of Population within Tract Category
Low Income Tracts	14	3%	19,621	2%
Moderate Income Tracts	118	24%	203,765	25%
Middle Income Tracts	213	44%	366,457	44%
Upper Income Tracts	133	28%	238,998	29%
N/A*	6	1%	8	0%
Total	484	100%	828,849	100%

*[The N/A areas are those tracts not designated during the 1990 U.S. census. These were primarily comprised of the John Wayne Airport area.]

The 1990 Census median family income in the area was \$51,269. The Department of Housing and Urban Development (HUD) updated the median family income in 2002 to \$75,600. The following table reflects the distribution of families by income level according to the 1990 Census.

ASSESSMENT AREA FAMILY DISTRIBUTION

Family Income Level	Number of Families by Income Level	Percent of Families in Area
Low Income Families	110,124	18%
Moderate Income Families	112,222	19%
Middle Income Families	139,185	24%
Upper Income Families	228,959	39%
Total	590,490	100%

The California Employment Development Department (CAEDD) recorded an unemployment rate of 3.9% in Orange County as of December 2002. Orange County's employment has fared better than Los Angeles, the State of California, and the national rates over recent years, although the County also experienced a general slowing in 2002. Major industries are centered in financial and medical services, research and development, bio-technology, tourism and amusement, retail/wholesale trade, and manufacturing. Major employers include Allergan Inc., Apria Healthcare Group, Bank of America, Disneyland, ICN Pharmaceuticals, Boeing Aerospace, Beckman Coulter, the University of California, Irvine Medical Group, and St. John Knits. The Orange County economic outlook for 2003 is cautious, but positive, with expected growth in tourism, aerospace/defense spending, and apparel production.

[Sources of economic data: State of California Employment Development Department, *America's Labor Market Information System (ALMIS 2002; County of Orange, 2003 Community Indicators Report.)*]

Dun & Bradstreet 2002 economic data show that 228,474 businesses operate within the bank's defined area. Of the 166,576 businesses that reported their revenues, 89% have annual revenues of less than \$1 million, of which 82% with revenues of less than \$500,000.

There is strong competition for market share among area financial institutions, including several community banks and branches of mid-size and large commercial, trust, and savings banks.

We contacted a small business development corporation to determine credit needs within the assessment area. They reported that there is a special need for subordinate-equity loans for small businesses in the area that would not otherwise qualify under the Small Business Administration 504 loan program. They also reported the special need for business loans in small dollar amounts, especially "micro-loans" (amounts less than \$10,000).

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 is reasonable given its size, financial condition, and area credit needs. We evaluated the quarterly average loan-to-deposit ratio over the last 20 quarters since the last examination. The bank's average loan-to-deposit ratio is 51%. This reasonably compares with the 50% average ratio of similarly situated banks (banks with similar asset size and located in the Orange County MSA). In addition, Harbor National Bank's ratio has steadily increased from 66% to 79% during 2002.

LENDING IN ASSESSMENT AREA

Harbor National Bank granted a substantial majority of the number and dollar volume of its loans within its defined assessment area. For this analysis, we reviewed loan data from a random sample of 20 commercial real estate and 20 business loans because they represented the majority of the number and dollar volume of the bank's loans. The following table reflects the number and dollar volume of loans the bank originated or purchased inside and outside the assessment area based on our sample.

LENDING INSIDE AND OUTSIDE THE ASSESSMENT AREA BUSINESS AND COMMERCIAL REAL ESTATE LOANS January 1998 through December 2002

	Number of Loans	Percent of Total Number	Dollar Volume	Percent of Total Dollar Volume
Inside Area	35	88%	\$13,738,085	87%
Outside Area	5	12%	\$1,943,850	13%
Total Loans	40	100%	\$15,681,935	100%

LENDING TO BORROWERS OF DIFFERENT INCOMES AND TO BUSINESSES OF DIFFERENT SIZES

Lending patterns reflect reasonable penetration among businesses of different sizes within the assessment area. The bank originated a majority of the number and dollar volume of the business loans in our sample to small businesses (having gross annual revenue of \$1 million or less). By percentages, the pattern of lending does not closely compare to the number of small businesses in the area based on Dun & Bradstreet 2002 economic data, but it is reasonable. The bank has a good record of granting small-sized loans to businesses, which is an identified community credit need. A majority of the number and dollar volume of business loans granted were small loans (\$100,000 or less).

We randomly sampled 20 commercial loans that the bank originated or purchased since the last examination. 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 tables reflect lending patterns to businesses of different sizes based on our sample.

LENDING TO BUSINESSES OF DIFFERENT SIZES DISTRIBUTION BY BUSINESS SIZE January 1998 through December 2002

Business Revenues	Percent of Businesses in the Area*	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollar Volume
< \$1 Million	89%	12	60%	\$771,835	35%
> \$1 Million	11%	8	40%	\$1,405,000	65%
Total	100%	20	100%	\$2,176,835	100%

*Source: 2002 Dun & Bradstreet data

LENDING TO BUSINESSES OF DIFFERENT SIZES DISTRIBUTION BY LOAN SIZE January 1998 through December 2002

Loan Size	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollar Volume
<=\$100,000	15	75%	\$807,835	37%
>\$100,000 to \$250,000	4	20%	\$619,000	28%
>=\$250,000 to \$1 Million	1	5%	\$750,000	35%
Subtotal	20		\$2,176,835	100%
<= \$1 Million	0	0%	-0-	0%
Total	20	100%	\$2,176,835	100%

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of loans reflects reasonable geographic dispersion when compared to area demographics. The percent of the number and dollar volume of loans in low- and moderate-income census tracts reasonably compares to the percent of businesses in those areas.

For this analysis, we randomly sampled 20 commercial loans. We did not analyze consumer lending patterns because the bank is primarily a commercial lender, and consumer lending is not a significant activity. The following table reflects the geographic distribution of the bank's business loans by census tract category based on our sample.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS **January 1998 through December 2002**

Census Tract Income Level	Percent of Businesses Located in Tract Category*	Number of Loans in Tract Category	Percent of Number of Loans in Tract Category	Dollar Amount in Tract Category	Percent of Total Dollar Amount in Tract Category
Low	4%	1	5%	\$75,000	3%
Moderate	26%	6	30%	\$318,959	15%
Middle	39%	4	20%	\$1,100,000	51%
Upper	26%	7	35%	\$592,876	27%
N/A**	5%	2	10%	\$90,000	4%
Total	100%	20	100%	\$2,176,835	100%

*Source: 2002 Dun & Bradstreet data [**N/A: 7,540 of area businesses are located in non-designated census tracts.]

In addition to its record of lending in the assessment area, Harbor National Bank dedicates time and resources to a number of community-based organizations that provide various services for low- and moderate-income persons.

- The bank's president is a member of the board of directors of Second Harvest Food Bank of Orange County. The food bank collects commodities and distributes them to non-profit agencies that serve the homeless, the disabled, the temporarily unemployed, and low- and moderate-income individuals and families. With more than 380 member charities, the food bank helps feed more than 200,000 persons each month.
- The manager of Harbor National Bank's Anaheim office serves as finance chairman helping to raise funds for the Anaheim Interfaith Shelter, a non-profit organization that provides food, shelter, and counseling to the homeless. Harbor National Bank has assisted with financing for special needs for the shelter including the extension of a \$250,000 loan to purchase a child care center.

- This same manager has also served as president of the Providence Speech and Hearing Center. He helps raise funds to provide free medical treatments, hearing aids, and speech therapy free of charge for Orange County low-income families. He also raises funds for Paint Your Heart Out/Build Your Heart Out, a non-profit corporation that helps to purchase and refurbish housing for low-income and disabled Anaheim residents. Since 1991, 491 homes have been refurbished with a reported value of \$3.5 million in neighborhood improvements.

RESPONSES TO COMPLAINTS

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

RECORD OF COMPLIANCE WITH FAIR LENDING LAWS

We performed an analysis of public comments and consumer complaint information according to the OCC's risk-based approach to fair lending. Based on analysis of the information, the OCC determined that a comprehensive fair lending examination would not be required in connection with the CRA evaluation this year.