



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

May 5, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Inland Empire National Bank
Charter Number 18242**

**3727 Arlington Avenue, Suite 202A
Riverside, California 92506**

**Office of the Comptroller of the Currency
Southern California South Field Office
1925 Palomar Oaks Way, Suite 202
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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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING.....	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF RIVERSIDE AND FALLBROOK ASSESSMENT AREA	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	4

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 **Inland Empire 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 "Outstanding."

The major factors that support this rating include:

- ❑ The average loan-to-deposit ratio is more than reasonable and compares very favorably with peer banks.
- ❑ A majority of loans originated or purchased since the last CRA examination are in the bank's assessment areas.
- ❑ The geographic distribution of loans reflects excellent dispersion throughout the assessment areas.
- ❑ The distribution of loans reflects adequate penetration among businesses of different sizes.
- ❑ The bank demonstrated strong commitment to community reinvestment through its exceptional level of community development loans and services.

DESCRIPTION OF INSTITUTION

Inland Empire National Bank is a full-service commercial bank with its main office and one other branch located in the City of Riverside (in Riverside County), California. A third branch is in the City of Fallbrook (in San Diego County), California. There is an automatic teller machine at one Riverside office and one at the Fallbrook office. The bank is wholly-owned by Duke Financial Group, Incorporated, a multi-bank holding company based in Minneapolis, Minnesota. As of December 31, 2002, the holding company reported total assets of \$432 million.

There are no financial or legal impediments that hinder the bank's ability to meet the credit needs of its community. As of December 31, 2002, total bank assets were \$80.8 million, 69 percent of which were net loans. The primary business focus is commercial lending. Table 1 shows the composition of the bank's loan portfolio by major product type as of December 31, 2002.

Table 1

LOAN PORTFOLIO COMPOSITION DECEMBER 31, 2002*		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial Real Estate	39,018	69%
Commercial	10,383	19%
1-4 Family Residential	2,271	4%
Consumer	672	1%
Other	4,152	7%
Total:	\$56,496	100%

*Source: 12/31/02 Call Report – Total Gross Loans

This office conducted the last CRA examination in December 1997 and rated the bank as "Satisfactory."

DESCRIPTION OF RIVERSIDE AND FALLBROOK ASSESSMENT AREAS

Inland Empire National Bank has two assessment areas: the City of Riverside and the City of Fallbrook. The *Riverside Assessment Area*, comprised of 28 census tracts, is in the Riverside/San Bernardino Metropolitan Statistical Area (MSA). The *Fallbrook Assessment Area*, comprised of five census tracts, is in the San Diego MSA. The two assessment areas comply with regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies. A description of each area follows.

Riverside Assessment Area

The total population in the Riverside defined area was approximately 203,739 according to the 1990 United States Census. Median housing value was \$137,057, with 54% of total housing units owner-occupied. The 1990 Census median family income in the MSA was \$37,274. The Department of Housing and Urban Development (HUD) updated the median family income in 2002 to \$50,300. Table 2 reflects the census tracts and family demographics by income category in the bank's Riverside Assessment Area.

Table 2

RIVERSIDE ASSESSMENT AREA COMPOSITION INCOME DISTRIBUTION OF CENSUS TRACTS & FAMILIES*				
Census Tract Type	Number of Total Census Tracts	Percent of Total Census Tracts	Number of Total Families	Percent of Total Families
Low Income	1	4%	8,875	18%
Moderate Income	6	21%	8,273	17%
Middle Income	16	57%	10,835	22%
Upper Income	5	18%	21,226	43%
Total:	28	100%	49,209	100%

*Source: 1990 U.S. Census

According to the Employment Development Department (EDD) for the State of California, 2001 data show the civilian labor force for Riverside County to be 750,700 with an unemployment rate of 5.2 percent. This is slightly lower than the state's rate of 5.3 percent for the same year. The county's diverse economic base is lead by services, retail trade, and government. Services are the largest industry in the county, accounting for 26 percent of the total employment. Within the services industry, recent growth is concentrated in personal services, private educational services, and engineering and management services. Trade employment in Riverside has been growing consistently since 1997 and currently accounts for over 24 percent of total jobs, with most of the employment in retail trade. Agriculture also continues to be a significant part of the county's economy.

Fallbrook Assessment Area

Fallbrook is primarily a middle-income residential and retirement area. The local economy consists mainly of small businesses that service the community and small agricultural concerns. The total population in the Fallbrook defined area was approximately 33,620 according to the 1990 United States Census. Median housing value was \$225,581, with 61% of total housing units owner-occupied. The 1990 Census median family income in the MSA was \$39,798. The Department of Housing and Urban Development (HUD) updated the median family income in 2002 to \$60,100. Table 3 reflects the census tracts and family demographics by income category in the bank's Fallbrook Assessment Area.

Table 3

SAN DIEGO ASSESSMENT AREA COMPOSITION INCOME DISTRIBUTION OF CENSUS TRACTS & FAMILIES*				
Income Definition	Number of Total Census Tracts	Percent of Total Census Tracts	Number of Total Families	Percent of Total Families
Low Income	0	0%	1,914	21%
Moderate Income	1	20%	1,854	20%
Middle Income	3	60%	1,957	21%
Upper Income	1	20%	3,524	38%
Total:	5	100%	9,249	100%

*Source: 1990 U.S. Census

According to the EDD, unemployment rates since 1997 have been lower for San Diego than for the state, indicative of employment opportunities in the area. Between 1997 and 2000, San Diego's rate dropped from a high of 4.2 percent, to a low of 3.0 percent. The rate increased slightly in 2001 to 3.2 percent, still well below the state's rate of 5.3 percent for the same year.

Competition among financial institutions in the bank's assessment areas is strong. Several Inland Empire- and San Diego-based community banks, as well as numerous branches of mid-size and large commercial and savings banks compete for market share in these areas.

In conjunction with this CRA examination, we interviewed a representative from an economic development agency located in the San Diego MSA and Riverside/San Bernardino MSA. In addition, we reviewed other contacts performed by regulatory agencies in June 2001. We did this to identify community needs for credit or services and to determine the extent of financial institution involvement in addressing those needs. All contacts indicated the need for affordable housing, small business financing, and small business education. One redevelopment agency reported that businesses can benefit from advantageous tax-credit and rebate incentives and the low-interest loans offered in Riverside County's redevelopment project areas.

CONCLUSIONS ABOUT 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 level of lending is excellent given the bank's size, area credit needs, and the competitive banking market.

We analyzed the bank's quarterly average loan-to-deposit ratio over the last 21 quarters and since the last CRA examination, and compared it to peer banks of similar asset size headquartered in the same assessment area. The bank's average ratio was 75 percent, which well exceeds the peer bank average ratio of 55 percent. Favorably, the bank's ratio trended upward since the last examination from a low of 61 percent in December 1998 to a high of 83% in December 1999.

LENDING IN ASSESSMENT AREA

Inland Empire National Bank granted a majority of the number and dollar volume of its loans within the assessment areas. Notably, the bank granted a substantial majority of the number of loans within the assessment areas. We placed greater emphasis on the number of loans granted because that view indicated the bank served a greater number of borrowers in the respective areas.

For this analysis, we evaluated all bank loans originated from January 2000 through December 2002. We used the bank's compiled data, which we tested for accuracy. Table 4 reflects the distribution of all loans originated inside and outside the bank's assessment areas.

Table 4

NUMBER AND PERCENTAGE OF LOAN ORIGINATIONS WITHIN THE ASSESSMENT AREA January 2000 through December 2002*								
	Inside Assessment Area				Outside Assessment Area			
Year	# of Loans	% of Annual Loans	\$ (000's) of Loans	% of Annual \$(000)	# of Loans	% of Annual Loans	\$ (000's) of Loans	% of Annual \$(000)
2000	156	75%	16,265	54%	52	25%	13,654	46%
2001	200	73%	26,645	60%	74	27%	17,786	40%
2002	202	74%	26,876	65%	71	26%	22,024	45%
Total:	558	74%	\$69,786	57%	197	26%	\$53,464	43%

*Source: Bank Compiled Data

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

The distribution of loans reflects adequate penetration among businesses of different sizes, considering the demographics of both assessment areas. For this analysis, we reviewed commercial loans since they represent the bank’s primary product lines. We did not analyze consumer lending, since the bank is primarily a business lender and consumer lending is not a significant activity.

Lending patterns reflect reasonable penetration among businesses of different sizes within the Riverside area. We randomly sampled 74 loans from among all borrowers granted commercial loans in the Riverside area between January 2000 and December 2002. The bank originated a majority of the number of these loans to small businesses (having gross annual revenues of \$1 million or less). We placed greater emphasis on the number of loans granted because that view indicated the bank served a greater number of small businesses in the respective areas. Table 5 reflects the distribution of commercial lending in the Riverside area according to business revenue size.

As reflected in Table 5, however, the percent and dollar volume of these loans does not compare closely with number of small businesses in the area, according to 2002 Dun & Bradstreet data. Management stated that in this geographic area, micro-businesses (businesses with less than 4 employees) usually fund their liquidity needs with loans secured by the owner’s residence or with credit cards. These funding sources tend to be more accessible and require less supporting documentation. Management reported the bank is seeking ways to work with such businesses to obtain alternate sources of business funding rather than the owners relying on personal debt.

For example, according to our community contact, small businesses can obtain capital needed via assistance through a state or county program, such as the State of California Small Business Loan Guarantee Program or the Inland Empire Small Business Development Center. The bank is an active participant in these two development corporations. (See the “Qualified Community Development Loan, Investments and Services” section of this Evaluation for additional information.)

Table 5

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE RIVERSIDE AREA January 2000 through December 2002					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
< \$1 Million	45	61%	7,551	44%	92%
> \$1 Million	29	39%	9,526	56%	8%
Total Loan Sample:	74	100%	\$17,077	100%	100%

* Source: 2002 Dun & Bradstreet

Business lending in the Fallbrook Assessment Area reflects adequate penetration among businesses of different sizes and compares more closely with area demographics, based on Dun & Bradstreet data. For the Fallbrook area, we reviewed all commercial loans originated during January 2000 through December 2002. Table 6 reflects the distribution of commercial lending in the Fallbrook area according to business revenue size.

Table 6

DISTRIBUTION OF COMMERCIAL LOANS BY ANNUAL REVENUE FALLBROOK AREA January 2000 through December 2002					
Revenue Size	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Less than \$1 Million	5	71%	1,618	84%	93%
Greater than \$1 Million	2	29%	305	16%	7%
Total Loan Sample:	7	100%	\$1,923	100%	100%

* Source: 2002 Dun & Bradstreet

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects excellent dispersion throughout both assessment areas. For this analysis, we used the same sample of commercial loans described above under “Lending Businesses of Different Sizes.” In both areas, the pattern of lending compares favorably with the area demographics in the respective census tracts.

As documented in Table 7, the number of loans originated in moderate-income tracts in the Riverside area is consistent with the business demographics, and the dollar volume of loans is significant in proportion to the total loan sample. (The low-income area is where the University of California at Riverside is located and opportunities for business lending are scarce. As such, a comparison analysis in that census tract is not meaningful.)

Table 7

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS RIVERSIDE AREA January 2000 through December 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Low Income	0	0%	0	0%	1%
Moderate Income	19	26%	6,555	38%	28%
Middle Income	24	32%	4,946	29%	49%
Upper Income	31	42%	5,576	33%	22%
Total Loan Sample:	74	100%	\$17,077	100%	100%

*Source: 2002 Dun & Bradstreet

As reflected in Table 8, the distribution of the number and dollar volume of loans in the

Fallbrook area significantly exceeds the demographics in the moderate-income tract. This reflects excellent responsiveness to businesses located there.

Table 8

GEOGRAPHIC DISTRIBUTION OF COMMERCIAL LOANS FALLBROOK AREA January 2000 through December 2002					
Income of Tract	# of Loans	% of Loans	\$ (000's) of Loans	% of \$(000)	% of Businesses in AA*
Low Income	0	0%	0	0%	0%
Moderate Income	3	43%	765	40%	27%
Middle Income	4	57%	1,158	60%	57%
Upper Income	0	0%		0%	16%
Total Loan Sample:	7	100%	\$1,923	100%	100%

*Source: 2002 Dun & Bradstreet

QUALIFIED COMMUNITY DEVELOPMENT LOAN, INVESTMENTS AND SERVICES

Inland Empire National Bank demonstrated strong commitment to community reinvestment as reflected in the exceptional level of community development loans it originated during the evaluation period. The bank originated \$4.4 million in community development loans, representing 58 percent of its Tier One Capital. A description of the bank's community development loans and services follows.

Affordable Housing

The bank originated three loans totaling \$3.1 million to several non-profit agencies to fund affordable housing projects in Riverside and San Bernardino counties, which is an identified community credit need, as follows:

- ❑ \$1.4 million to a non-profit 501(c)(3) corporation to fund an affordable housing project in San Bernardino County. The non-profit corporation provides decent housing for economically disadvantaged individuals and families, including the elderly, throughout the county.
- ❑ \$626,500 to a multi-care housing facility to provide housing for low- and moderate-income seniors in the City of Riverside.
- ❑ \$850,000 to the Housing Authority of the City of Riverside to provide housing for low-income families in Riverside County. The affordable housing program allows tenants to pay 30 percent of their monthly income for rent. This is a federally-funded program that has been serving Riverside County for more than 50 years.

Promoting Economic Development

❑ *Restaurant Assistance Program*

Inland Empire National Bank, together with the City of Riverside Redevelopment Agency, helped establish a Restaurant Assistance Program. The bank originated three loans under this program totaling \$500,000 during the evaluation period to locally-owned businesses, with additional loans pending for three other restaurants.

The program was undertaken in response to an identified community need to expand the number and variety of restaurants in the downtown and Marketplace areas of Riverside. To meet the identified need, the bank participated with the City of Riverside in a five-year loan guarantee program that provides an incentive to operators of small independently-owned restaurants to relocate or expand in those areas.

Traditional financing for restaurant owners is exceptionally difficult to obtain. In particular, small restaurants are usually tenants rather than building owners and often lack the real estate collateral required to secure a commercial loan. To address the need, the City Redevelopment Agency deposited \$1 million pledged toward loan repayments in the event of default, enabling the bank to grant credit to these borrowers at a lower interest rate than would otherwise be possible.

This loan program promotes economic development. It enables restaurant owners to undertake tenant improvements and acquire furniture, fixtures, and equipment. This also benefits the community through the creation of additional jobs and sales taxes generated from the restaurant ventures.

❑ *Small Business Lending Program*

The bank originated three loans totaling \$493,500 through its participation in a business loan program with the Inland Empire Small Business Financial Development Corporation (IESBFDC). The program enables businesses to obtain a loan under flexible underwriting criteria. It also enables a business to establish favorable credit history with a lender and subsequently obtain future loans on its own merit without the assistance of the program. The IESBFDC provides guarantees up to 90 percent of the loan amount, with the guaranteed portion not exceeding \$350,000. The guaranteed amount can vary according to agreement between IESBFDC and the lender. Inland Empire National Bank is one of 11 financial institutions participating in this program.

Community Services Targeted to LMI Individuals

The bank originated three loans totaling \$280,000 community service organizations that provide services for LMI individuals. One loan was to a non-profit corporation that assists with the rehabilitation of substance abusers. Funds were used to purchase a home to provide transitional housing for patients. The second loan was to non-profit corporation for operating cash flow to

help provides a wide range of services to low-income Hispanic families. The third loan was to a non-profit corporation that provides assisted-living for HIV-AIDS patients.

Investments

The bank contributed \$5,000 to the Inland Empire Lenders' Community Development Corporation (IELCDC). The IELCDC is not-for-profit organization committed to serving the capital needs of small businesses in San Diego, Orange, Riverside, and Imperial counties. The bank's contribution is allocated toward minority-owned and women-owned small business located in low- and moderate-income areas.

RESPONSES TO COMPLAINTS

Inland Empire National Bank has not received any written complaints associated with its performance under the Community Reinvestment Act.

FAIR LENDING REVIEW

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