



**SMALL BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

**June 14, 2010**

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

Bank of Southern California, N.A.  
Charter Number: 24100

12265 El Camino Real, Suite 100  
San Diego, CA 92130

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

## **INSTITUTION'S CRA RATING: This institution is rated Satisfactory.**

The primary factors supporting the institution's rating follow:

- The bank's loan-to-deposit ratio is reasonable and meets the standard for satisfactory performance.
- The bank originated a majority of loans inside its assessment area and meets the standard for satisfactory performance.
- The distribution of lending to business borrowers reflects reasonable penetration among businesses of different sizes.
- The geographic distribution of loans within the assessment area is reasonable and meets the standard for satisfactory performance.

## **SCOPE OF EXAMINATION**

We evaluated the bank's record of meeting community credit needs using the "Small Bank" lending test. This included analyzing a random sample of commercial loans originated or purchased beginning January 1, 2008 through March 31, 2010. We sampled commercial loans because they represent the substantial majority of the bank's lending activity.

## **DESCRIPTION OF INSTITUTION**

Bank of Southern California, N.A. (BSC) is a locally owned and independent community financial institution headquartered in the community of Del Mar and City of San Diego, California. BSC opened for business in December 2001 as Ramona National Bank. Management changed the bank's name to First Business Bank in March 2007 after relocating to the north San Diego County area. Effective June 28, 2010, the bank will undergo another name change to of Bank of Southern California, N.A., as another bank held the previous name. The main branch is located at 12265 El Camino Real in San Diego, which opened in January 2008. In September 2008, BSC opened a deposit production office in Carlsbad and converted it into a full-service branch in February 2009. The bank opened the Del Mar and Carlsbad branches to establish a presence in the coastal communities where there are professional business lending opportunities. The third branch is in Ramona, which is the original location where the bank opened for business. The main branch and the Carlsbad branch are located in upper-income census tracts, and the Ramona branch is located in a moderate-income census tract. The bank is scheduled to open a loan production office in a low-income census tract of downtown San Diego in July 2010 to attract business customers in the surrounding areas.

BSC engages in traditional lending products with an emphasis in commercial real estate (CRE) loans. Most of the CRE loans are with relationship customers and are owner-occupied. The bank also participates in the Small Business Administration 504 and 7(a) loan programs, but the overall volume for these lending products is low. Consumer and retail lending activities are limited. BSC does not originate first trust deed consumer mortgages but does originate home equity lines of credit with relationship customers. BSC's primary lending competitors are Wells Fargo, Bank of America, U.S. Bank, Security Business Bank, and Torrey Pines Bank.

BSC offers traditional services at all branches, but only the Ramona branch has safe deposit boxes and night drop services. Management believes there is no need for safe deposit boxes and night drop services at the other branches since they are located in industrial parks. The Ramona branch has two Automated Teller Machines (ATMs) and the Del Mar branch has one walk-up ATM. The Carlsbad branch does not have an ATM machine because the branch is located in an industrial park, and walk-in traffic is minimal. The bank is installing an ATM at the golf country club in the San Diego Country Estates, Ramona. The ATM should be operational by the end of June 2010. Management issues ATM cards for customers through Fifth Third Bank. All branches are open for business Monday through Friday from 9:00 AM to 5:00 PM. The bank does not offer weekend hours because most of the customers are commercial businesses, consumer activity/walk-in traffic is minimal, and it is not cost-effective to operate the branches on weekends.

As of March 31, 2010, assets totaled \$125 million and loans totaled \$98 million representing 78 percent of total assets. Deposits and equity capital totaled \$98 million and \$20 million respectively. The following chart summarizes the loan portfolio by major loan type as reflected in the Call Report of Condition and Income.

<b>First Business Bank, N.A.</b> <b>March 31, 2010</b> <b>Loan Portfolio by Major Product Type</b>		
Loan Type	(\$000s)	Percent
Commercial Real Estate	75,666	77
Commercial	17,642	18
Consumer	4,013	4
Other	356	< 1
Total	97,677	100

*\*Source: March 31, 2010 Report of Condition and Income*

There are no financial or legal factors that impede the bank's ability to meet the credit needs of the community. BSC received a "Satisfactory" rating under the "Small Bank" rating criteria as Ramona National Bank at the last CRA examination, dated May 5, 2004.

## DESCRIPTION OF ASSESSMENT AREA

BSC has one assessment area (AA), which is the San Diego-Carlsbad-San Marcos metropolitan statistical area. The AA consists of the entire San Diego County. San Diego County is the southern-most 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. The AA meets regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The bank helps meet community credit needs in the AA through its main branch located in the community of Del Mar in San Diego and branches located in Ramona and Carlsbad. The 2000 U.S. Census indicates a population of 2.8 million in San Diego. Based on California Employment Development Department (CAEDD) information, the 2010 San Diego County population is 3.2 million.

The AA has 605 census tracts: 8 percent are low-income, 23 percent are moderate-income, 38 percent are middle-income, and 31 percent are upper-income tracts. The low-income tracts are primarily in central portion of the City of San Diego, and the moderate-income tracts are disbursed around the City of San Diego with large individual moderate-income tracts in the northern, southern, and eastern sections of the County. The 2000 Census median housing value was \$229,602. According to MDA DataQuick, the median home price in May 2010 was \$340,000. Approximately 51 percent of all housing units are owner-occupied. The weighted average of census MSA median family income is \$53,544. The 2009 HUD updated MSA median family income is \$74,900.

The San Diego County economy was one of the state's fastest growing at the beginning of the decade with seven industries tied to the biotech and military sectors. However, San Diego County's economy has slowed, reflecting the nationwide and global economic downturn. The San Diego Business Journal cites that trade-industry, transportation and utilities posted the largest declines followed by retail, mainly general-merchandise and clothing stores. Other declines occurred in professional and business services and the hospitality sector, primarily in restaurants and bars. However, the education and health services industries as well as federal, state, and local government jobs increased.

The CAEDD reported that the unemployment rate in San Diego County was 10 percent in May 2010, below the state unemployment rate of 12.4 percent but close to the national unemployment rate of 9.7 percent. The employed labor force is approximately 1.4 million. San Diego County's major industries include government, professional, and business services; and trade, transportation, and utilities. Major employers consist of the Marine Corps Base Camp Pendleton, Coronado Naval Base, Naval Base San Diego, University of California San Diego, Qualcomm, Inc, Scripps Health, and Sharp HealthCare. House prices rose 9 percent since the first half of last year, according to the Case-Shiller Home Price Index. As of May 2010, home sales in San Diego County increased 19.6 percent from a year ago according to MDA DataQuick. As of April 2010, 9.4 percent of mortgages were delinquent compared to 9.9 percent in the previous year according to TransUnion.

Competition among financial institutions in the area includes large- and mid-size bank branches and other community banks. BSC’s primary lending competitors are Wells Fargo, Bank of America, U.S. Bank, Security Business Bank, and Torrey Pines Bank.

An examiner contacted one community organization to determine primary credit needs in the AA. The agency is a non-profit charitable organization with a mission to help at-risk youths and their families become self-sufficient and reach their highest potential. The contact cited flexibility from banks in helping their clients open accounts and establish credit as the primary community credit need.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

### Loan-to-Deposit Ratio

The bank’s loan-to-deposit ratio (LTD) is reasonable and meets the standard for satisfactory performance. We analyzed the bank’s quarterly average LTD ratio over the past 25 quarters from March 2004 through March 2010. The bank’s average LTD ratio over that period was 87 percent. The average LTD ratio of four similarly situated banks was 85 percent during the same period, with a range of 68 percent and 97 percent (banks with similar asset size headquartered in the San Diego MSA).

### Lending in Assessment Area

BSC originated a majority of loans inside its AA and meets the standard for satisfactory performance. For this evaluation, we randomly sampled 20 commercial loans the bank originated or purchased from January 2008 through March 2010. We sampled commercial loans since they represent the bank’s primary lending activity. Based on our random sample, the bank originated 80 percent of the number of loans and 75 percent of the dollar volume within its AA.

**Table 1**

<b>Lending in the Defined CRA Area                      San Diego County Assessment Area                      Commercial Loans                      January 2008 through March 2010</b>										
	Number of Loans				Total #	Dollar Amount of Loans				Total (000's)
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$(000's)	%	\$(000's)	%	
Commercial Loan Sample	16	80%	4	20%	20	\$7,693	75%	\$2,502	25%	\$10,195

*Source: Random sample of 20 bank loan originations from January 2008 through March 2010*

**Lending to Businesses of Different Sizes**

The distribution of lending to business borrowers reflects reasonable penetration among businesses of different sizes. We analyzed a random sample of 20 commercial loans that the bank originated or purchased within its AA from January 2008 through March 2010. Based on the sample, the number and dollar volume of loans granted to business borrowers with revenue of \$1 million or less compares reasonably with area demographics in the AA considering 22 percent of businesses did not report revenue data. The bank originated 40 percent of loans by number and 45 percent by dollar volume to small business borrowers in the San Diego AA. While these percentages are somewhat below the area demographics, lending to small businesses within the AA is highly competitive and BSC competes with a number of large national financial institutions as well as regional and local lenders. In addition, the bank’s business strategies focus heavily on commercial real estate, which are most often larger dollar loans resulting in more loans to businesses with revenues exceeding \$1 million.

The bank has a program called Express Business Loans that provides loans of \$100,000 or less to small businesses in the community. This loan product represents 25 percent of total loans by number originated during our evaluation period, further supporting the bank’s willingness to make small loans to businesses.

**Table 2**

<b>Lending to Business of Different Sizes – Borrower Distribution                      Commercial Loans                      San Diego County, California - Assessment Area                      January 2008 through March 2010</b>			
Business Revenue	≤\$1,000,000	>\$1,000,000	Total
% of AA Businesses *	73.56%	4.38%	100%
% of Bank Loans in AA by # **	40.00%	60.00%	100%
% of Bank Loans in AA by \$ **	45.00%	55.00%	100%

Source: \*2009 Dunn & Bradstreet reported revenue data (22% of businesses did not report revenue data); \*\*Loan Sample

**Geographic Distribution of Loans**

The geographic distribution of loans within the AA is reasonable and meets the standard for satisfactory performance. We analyzed 20 commercial loans that the bank originated or purchased within its AA from January 2008 through March 2010. Based on the sample, the distribution of the number of loans compares reasonably to area demographics, primarily in moderate-income census tracts. We found no conspicuous gaps in the bank’s distribution of loans.

As shown in Table 3, the bank's distribution of business loans originated from out loan sample in low-income geographies was zero as compared to area demographics of 7.93 percent. We reviewed bank prepared CRA analysis reports and found 7 percent of

total loans were in low-income geographies, meeting demographic data. The bank’s distribution of business loans originated in the moderate-income geographies was 20 percent, which is also reasonable when compared to area demographics of 22 percent.

**Table 3**

<b>Geographic Distribution of Commercial Loans                      San Diego County, California - Assessment Area                      January 2008 through March 2010</b>								
<b>Census Tract Income Levels</b>	<b>Low</b>		<b>Moderate</b>		<b>Middle</b>		<b>Upper</b>	
	% of AA Businesses*	% of Number of BSC Loans**	% of AA Businesses*	% of Number of BSC Loans**	% of AA Businesses*	% of Number of BSC Loans**	% of AA Businesses*	% of Number of BSC Loans**
Commercial Loan Sample	7.93%	0%	22.48%	20%	37.69%	45%	31.40%	35%

Source: \*2009 Dunn & Bradstreet business data by geographic location; \*\* Loan Sample

**Responses to Complaints**

BSC has not received any complaints during this evaluation period in regards to its CRA performance.

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

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