



**Comptroller of the Currency
Administrator of National Banks**

Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105
(415) 545-5900

PUBLIC DISCLOSURE

March 17, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**San Diego National Bank
Charter Number 17114**

**1420 Kettner Boulevard
San Diego, California 92112**

<p>NOTE: 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.</p>

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 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 **San Diego National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of March 17, 1997. 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 bank’s loan-to-deposit ratio is satisfactory and is comparable to peer banks.**
- **During 1996, 97% of loans originated were to borrowers within the bank’s assessment area.**
- **Loans are reasonably distributed among borrowers of different income levels and businesses of different sizes.**
- **Loans are insufficiently dispersed among the various geographies (census tracts) throughout the assessment area.**

The following table indicates the performance level of *San Diego National Bank* with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	San Diego National Bank Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio		X	
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes		X	
Geographic Distribution of Loans			X
Response to Complaints	No complaints	received since	the last examination.

DESCRIPTION OF INSTITUTION:

San Diego National Bank (SDNB) is a wholly-owned subsidiary of San Diego National Financial Corporation, a one-bank holding company. SDNB is headquartered in the city of San Diego. In December 1995 the bank opened a branch office in Chula Vista. This \$202 million bank is well-capitalized according to Prompt Corrective Action definitions contained in the FDIC Improvement Act. Apart from its size, SDNB has the ability to meet the credit needs within its assessment area. SDNB's previous CRA performance was satisfactory.

SDNB extends credit primarily to businesses but has available a full range of consumer loan products. The bank funded approximately 80.3% of its total loan dollars originated in 1996 to businesses. The remaining loan dollars are distributed as follows: construction 11.6%, consumer 4.8%, land loans 2.1%, and leases 1.2%. The financial institutions in the County of San Diego have always experienced a competitive banking environment. The competition includes branches of large regional banks, community banks, savings and loans associations, and credit unions. Recent bank mergers and acquisitions reduced the number of financial institutions, but the level of competition remains high.

DESCRIPTION OF SAN DIEGO COUNTY:

SDNB designated the San Diego Metropolitan Statistical Area (MSA), less five census tracts as its assessment area. The five tracts excluded from the assessment area represent the Cleveland National Forest. The assessment area comprises 440 census tracts, of which 26 are low-income, 94 moderate-income, 190 middle-income, and 117 upper-income. Also, there are 13 tracts for which the 1990 census reported no income. The housing stock in the low- and moderate-income tracts are 75% and 65% rental, respectively. Besides the city of San Diego, there are 17 other cities and many unincorporated communities within the assessment area. According to the 1990 census report, the San Diego MSA has a total population of 2,479,376.

The local economy depends on tourism, real estate development, military, defense contractors, manufacturing, government, and retail trade. There are six airports in this MSA, including one major airport. The impact of armed forces is substantial with six Navy and Marine Corps military bases located within the assessment area. The largest base is Camp Pendleton, which occupies 195 square miles. Like all of Southern California, the San Diego MSA (county) is rebounding from a soft real estate market and cut backs in defense spending. According to information obtained from the Bureau of Labor Statistics, the unemployment rate of 6.39% is lower than in 1993. The US Census Bureau reported 9% (81,423) of the population living below the poverty level, while individuals receiving social security and retirement account for 22% and 17%, respectively. The San Diego MSA borders the country of Mexico. Thus, there is a constant influx of legal and illegal immigrants into the area, which increases the need for education and housing.

As a part of this examination, we considered information obtained from a federal government agency, a city housing department, a city economic development services department, a neighborhood housing organization, and a small business development and international trade center at a local college. Our contacts identified needs for small business loans less than \$20,000 for start-up and existing businesses in Barrio Logan, Escondido, Imperial Valley, and southeast San Diego. There is also a need for affordable housing and banking facilities in City Heights. They perceive two minority groups, Hispanics and African-Americans, as having the most difficulty obtaining credit.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

LOAN TO DEPOSIT RATIO:

SDNB’s loan-to-deposit ratio meets the standard for satisfactory performance. The bank’s average loan-to-deposit ratio for the eight quarters ending September 30, 1996, is 66.8%. This ratio is comparable to the peer bank average ratio of 72.2%. The peer banks are four institutions of similar asset size and business focus located within the San Diego MSA.

LENDING IN ASSESSMENT AREA:

SDNB’s lending within its assessment area exceeds standards for satisfactory performance. The bank extended 97% of the total loan dollars originated in 1996 to borrowers within the bank’s assessment area. We used loan information developed by the bank to perform this analysis. We sampled 42 loans, 23 business (commercial) and 19 consumer to confirm the accuracy of the bank’s information. Refer to the chart below for more details.

Loans Made Within Assessment Area

Total Loans by Number and Dollar Amount	Total Loans Made Within the Assessment Area	Percent of Total Loans Made within the Assessment Area
814	770	95%
\$116,991,444	\$113,356,411	97%

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

SDNB's loans are reasonably distributed among borrowers of various income levels and businesses of different sizes within the assessment area. SDNB is primarily a business bank but has a full range of consumer products available. Most of the consumer loans originated are accommodations to the bank's business borrowers. In 1996 the bank funded 121 consumer loans. However, the bank reported income for only 66 borrowers. The low- and moderate-income borrowers received 26% of the total loans for which the bank reported income. The middle- and upper-income borrowers received 74% of the loans. This is consistent with the bank's business strategy. The average loan size is \$38,642, and the smallest loan is \$1,400. Refer to the following chart for more details.

**Borrowers of Different Income Levels
Consumer Loans in Assessment Area**

Income Levels	Number of Tracts	Percentage of Total Tracts	Income Distribution of Borrowers	Percentage of Loans in Each Income Level
Low-Income	26	6	7	11
Moderate-Income	94	21	10	15
Middle-Income	190	43	4	6
Upper-Income	117	27	45	68
No Income Reported	13	3	N/A	N/A
Totals	440	100	66	100

The bank extended 640 business loans during 1996. The average loan size is \$140,210 and the smallest loan is \$1,000. Refer to the chart below. On loan size were only available for 460 of those borrowers. Of the total business loans, 71% were to businesses reporting revenues less than \$1,000,000.

Business Loans by Size

Loan Size	Number of Loans	Percentage of Loans
<\$100,000	432	68
\$100,000 to < \$250,000	121	19
\$250,000 to< \$500,000	54	8
\$500,000 to< \$1,000,000	27	4
\$1,000,000 and Over	6	1
Totals	640	100

In 1996, SDNB funded 14 construction loans totaling \$14,211,388. They extended eight of those loans to borrowers with revenues of less than \$1,000,000 and three to borrowers with revenues exceeding \$1,000,000. Revenues for three of the borrowers were not available. Eight of the loans were for amounts less than a \$1,000,000 and six exceeded \$1,000,000. The average loan size was \$1,015,099, and the smallest loan was \$435,000.

GEOGRAPHIC DISTRIBUTION OF LOANS:

SDNB’s loans are insufficiently dispersed among the various geographies (census tracts) throughout the assessment area. The bank did not extend loans to 52% or 228 of the 440 tracts within its assessment area. In addition, there are conspicuous gaps in the bank’s geographic distribution of loans. Some of these gaps include many low- and moderate-income tracts that are close to the bank’s main office. Of the 212 tracts where the bank funded loans, 83 tracts had one loan in each tract and 41 tracts had two loans in each tract. The loan distribution reflects the bank’s business strategy, which is lending to select types of businesses such as import/export, professionals (medical, attorneys, and accountants), manufacturing, and wholesale. This strategy resulted in no loan activity in some census tracts that contain primarily residential housing and retail businesses. Refer to the following charts for details.

Loan Distribution by Census Tracts in Assessment Area

Income Levels	Number of Tracts in Assessment Area (AA)	Percentage of Total Tracts in AA	Numbers of Tracts With No Loans in AA	Percentage of Total Tracts With No Loans in AA	Percentage of Tracts in Each Income Level With No Loans
Low-income	26	6	14	3	54
Moderate-income	94	21	52	12	55
Middle-income	190	43	108	25	57
Upper-income	117	27	45	10	38
No Income Reported	13	3	9	2	69
Totals	440	100	228	52	

Distribution of Loans by Numbers in Assessment Area

Income Characteristics of Census Tracts	Number of Census Tracts	Number of Loans	Percentage of Loans
Low-income	26	49	6
Moderate-income	94	201	26
Middle-income	190	237	31
Upper-income	117	276	36
No Income Reported	13	7	1
Total	440	770	100

Distribution of Loans by Dollars in Assessment Area

Income Characteristics of Census Tracts	Number of Census Tracts	Loan Dollars	Percentage of Loans
Low-income	26	9,435,755	8
Moderate-income	94	30,352,259	27
Middle-income	190	35,692,275	31
Upper-income	117	37,083,641	33
No Income Reported	13	792,481	1
Total	440	113,356,411	100

COMMUNITY DEVELOPMENT LOANS:

Included in the lending activity discussed above are some community development loans that the bank extended in response to identified credit needs within the assessment area. The following loans primarily benefit the low- and moderate-income population:

- \$100,000 below market rate loan to Accion San Diego to fund small business loans (\$500 to \$1,000) that are unavailable at most financial institutions.
- \$17,421 in business loans made available through the Bankers Small Business CDC.
- \$285,000 in loans to four small businesses through the bank's participation in the California Economic Development Lending Initiative (CEDLI).
- \$2,265,872 for 14 loans extended to seven borrowers in the Southeast San Diego Enterprise Zone.

In October 1995 the bank developed a special purpose credit program to provide loans to the participants of High Hopes. This nonprofit organization seeks to redirect adult gang and criminal behavior by providing alternative opportunities. The bank offers \$1,000 unsecured loans for 24 months at 9% annually. The purpose of the loan is limited to education, transportation, work-related, or housing expenses. Applicants must be active members of High Hopes for at least one year. The bank does not require credit history. Applicants must bring delinquent debts current, or show consistent attempts to do so. To date, the bank funded one loan.

RESPONSE TO COMPLAINTS:

SDNB has not received complaints associated with its performance under the provisions of the CRA since our last examination in March 1994.

RECORD OF COMPLIANCE WITH ANTI-DISCRIMINATORY LAWS:

We did not identify any violations of anti-discriminatory laws or regulations.