



Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

March 31, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Pacific National Bank
Charter Number 17166**

**4665 MacArthur Court
Newport Beach, California 92660**

**Comptroller of the Currency
50 Fremont Street, Suite 3900
San Francisco, California 94105**

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.

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 **Pacific National Bank** prepared by the **Office of the Comptroller of the Currency**, the institution's supervisory agency, **as of March 31, 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.”**

Pacific National Bank demonstrates commitment to serving the communities in which it operates. Its lending performance throughout the assessment area, including low- and moderate income areas, is satisfactory.

- The loan-to-deposit ratio compares very favorably with similar banks in the area.
- A substantial majority of loan originations are within its assessment area.
- Lending to businesses of different sizes is satisfactory.
- Lending is reasonably distributed throughout the assessment area.

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

SMALL INSTITUTION ASSESSMENT CRITERIA	Pacific 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 were received since the last examination.		

DESCRIPTION OF INSTITUTION:

Pacific National Bank opened in 1982 as a full service commercial bank headquartered in Newport Beach, California. The bank is a wholly-owned subsidiary of PNB Financial Group, Inc., a bank holding company with total assets of \$198 million. The bank provides community access to credit by maintaining four branches in its assessment area: the main office plus two other branches in Orange County, and one branch in Beverly Hills. The bank has a proprietary automatic teller machine at the Orange branch.

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, 1996, the bank reported total assets of \$197 million centered in loans. Net loans represent 82% of total assets. The primary business focus is mortgage lending which accounted for 90% of loan originations in 1996. The bank has three mortgage production offices which are located in Irvine, San Diego, and Phoenix. The following chart reflects the bank's loan portfolio by major product type.

LOANS BY MAJOR PRODUCT TYPE - As of March 31, 1997

LOAN TYPE	DOLLAR AMOUNT	% OF TOTAL LOANS (\$)
Residential Real Estate	53,900,847	36%
Commercial Loans (Includes SBA Loans)	38,223,001	25%
Commercial Real Estate	53,169,461	35%
Consumer	5,916,837	4%
TOTAL LOANS:	151,210,146	100%

The last CRA performance evaluation in April 1995 rated the bank as "Satisfactory."

DESCRIPTION OF PACIFIC NATIONAL BANK’S ASSESSMENT AREA:

The bank’s assessment area consists of all of the census tracts within three metropolitan statistical areas (MSA): Orange, Los Angeles-Long Beach, and Riverside-San Bernardino. The assessment area complies with regulatory requirements and does not arbitrarily exclude low- or moderate-income geographies. The chart below reflects the composition of the assessment area by census tract type.

ASSESSMENT AREA COMPOSITION

Census Tract Type	# of Tracts in Area	% of Assessment Area
Low Income	172	7%
Moderate Income	573	24%
Middle Income	884	36%
Upper Income	777	32%
No Reported Income*	28	1%
TOTAL CENSUS TRACTS:	2,434	100%

*(The census tracts with no reported income are undeveloped or not residential areas.)

The following descriptions will address each of the three MSAs that comprise the assessment area:

ORANGE COUNTY MSA

There are approximately 2.4 million residents in the Orange County MSA with a median family income of \$51,269 based on 1990 U.S. Census data. The median housing value is \$252,700. Orange County’s economy is centered in services, trade, manufacturing, real estate development, and government. The 1994 Orange County municipal bankruptcy has not significantly impacted the private sector. Recent growth in construction and manufacturing reflect an improving local economy.

LOS ANGELES-LONG BEACH MSA

According to 1990 U.S. Census data, approximately 14.5 million residents occupy the Los Angeles-Long Beach MSA with a median family income of \$39,035. The median housing value is \$226,400. The MSA is one of the largest and most diverse industrial bases in the country. The area has historically relied on the military and aerospace as major components of the economy. However, as a result of extensive military and aerospace cutbacks, job growth is now projected to occur in the service sector.

RIVERSIDE-SAN BERNARDINO MSA

The median family income for the Riverside-San Bernardino MSA, based on 1990 census data, is \$37,274. There are approximately 2.5 million residents in the MSA with 11% of the population below poverty level. Median housing value is \$120,600. The local economy historically has relied on agriculture, military, and aerospace. Cutbacks in military and aerospace have been offset by growth in construction, manufacturing, retail activity, and research and development laboratories.

OVERALL ASSESSMENT AREA

Numerous banks and financial institutions serve the area, resulting in strong competition for market share. Small businesses (annual revenue less than \$1 million) represent the majority of the businesses in the bank's assessment area. Most sectors of the economy are experiencing modest growth following a prolonged recovery from the recent recession. Recovery has been slow in Southern California as a result of spending cutbacks in defense and related industries which severely impacted the real estate market. We contacted two local community officials and determined that business loans and technical assistance for small businesses are significant needs in the community.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA :

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio exceeds standards for satisfactory performance. The average loan-to-deposit ratio since the last CRA examination is 88.57%, ranging from 81% to 96%. This ratio compares favorably to the 65.70% average loan-to-deposit ratio of the other Orange County financial institutions with total assets between \$175 million and \$225 million. In addition, the bank's loan-to-deposit ratio increases significantly if the amount of mortgage loans originated and sold to the secondary market is included. For example, the 1996 average loan-to-deposit ratio, including sold mortgage loans, is very high at 186%.

Lending in Assessment Area

The bank's lending in the assessment area exceeds standards for satisfactory performance. The bank originated a substantial majority of the dollar volume and number of its loans within the assessment area. We prepared the following analysis based on data provided by the bank which we tested for accuracy.

LENDING INSIDE AND OUTSIDE OF AREA Loan Originations from January 1996 Through December 1996

	LOANS (#)	% LOANS (#)	LOANS (\$)	% LOANS (\$)
IN AREA	5,448	87%	765,255,200	90%
OUT OF AREA	817	13%	81,516,800	10%
TOTALS	6,265	100%	846,772,000	100%

Lending to Borrowers of Different Incomes and Businesses of Different Sizes

Lending activity to borrowers of different income levels and businesses of different sizes meets the standards for satisfactory performance. As previously mentioned, the bank is primarily a mortgage lender. For this reason, we used the bank's sample of mortgage loans, which we tested for accuracy, to ensure the bank is lending to borrowers of different incomes. The following chart reflects the bank's mortgage loan activity in 1996.

**1996 MORTGAGE LENDING IN ASSESSMENT AREA
BY BORROWER INCOME LEVEL**

	Mortgage Loans (#)	% of Mortgage Loans (#)	Mortgage Loans (\$)	% of Mortgage Loans (\$)
Low Income	178	4%	22,268,900	3%
Moderate Income	987	19%	118,202,300	18%
Middle Income	2185	43%	258,228,100	39%
Upper Income	1729	34%	260,204,000	40%
Total Sampled:	5,079	100%	658,903,300	100%

The bank has extended a majority of business loans to small businesses in the assessment area as reflected in the chart below. We used the bank's analysis of the loan portfolio which we tested for accuracy.

**1996 LENDING IN ASSESSMENT AREA BY ANNUAL BUSINESS REVENUES
Loan Originations from January 1996 Through December 1996**

	Business Loans (#)	% Business Loans by (#)	Business Loans (\$)	% Business Loans by (\$)
Loans to Small Businesses (< \$1 Million Annual Revenue)	244	67%	81,120,600	75%
Loans to Large Businesses (>\$1 Million Annual Revenue)	122	33%	27,751,300	25%
Total 1996 Business Loans	366	100%	108,871,900	100%

Geographic Distribution of Loans

The bank's lending is reasonably distributed throughout the assessment area. Lending activity in different income level census tracts is comparable to demographic information. We used the bank's internal analysis which we tested for accuracy. The chart below compares the bank's lending to the percentage of various income level census tracts that comprise the assessment area.

GEOGRAPHIC DISTRIBUTION OF LOANS **Loans Originated from January 1996 Through December 1996**

Census Tract Income Type	% of Assessment Area	# Loans in Tracts	% Loans in Tracts by (#)	Loans in Tracts (\$)	% of Loans (\$)
Low	7%	199	4%	26,969,800	3%
Moderate	24%	1,116	20%	143,741,000	19%
Middle	36%	2,317	41%	302,957,900	39%
Upper	32%	1,946	35%	302,744,600	39%
TOTALS	100%	5,578	100%	776,413,300	100%

Responses to Complaints

The bank has received no CRA related complaints since the last CRA performance evaluation.

Fair Lending Analysis

The bank is in compliance with Fair Lending laws and regulations. Our fair lending review, conducted along with this examination, found no unusual patterns or discriminatory lending practices.