



**WHOLESALE BANK**

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Comptroller of the Currency  
Administrator of National Banks

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Washington, DC 20219

## **PUBLIC DISCLOSURE**

December 3, 2007

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

California First National Bank  
Charter Number: 23925

18201 Von Karman Avenue, Suite 420  
Irvine, California 92612

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.

## **INSTITUTION'S CRA RATING:**

**This institution is rated “Satisfactory.”**

The conclusions for the three rating criteria are:

- The bank demonstrates adequate responsiveness to credit and community development needs in its assessment area (AA).
- The bank demonstrates an adequate level of community development lending, services, and qualified investment activity.
- The bank’s use of “innovative or complex” community development loans, investments, or services is rare, but performance is otherwise satisfactory.

## **Scope of the Examination**

California First National Bank (“CFNB” or the “*bank*”) is designated as a “wholesale institution” for CRA compliance purposes. To evaluate the CRA performance of banks with this designation, regulatory agencies use the *community development test*. This includes an assessment of the level and nature of a bank’s community development lending, investments, and services.

This is CFNB’s second CRA examination since it opened for business in May 2001. At the prior CRA examination, we rated the bank’s performance as “Satisfactory.” At this examination, we reviewed community development lending, services, and investments during the evaluation period: from February 1, 2004, through September 30, 2007. Because the bank adequately addressed the needs of its AA during this period, we considered community development activities the bank participated in outside its designated AA when evaluating its performance.

## **Description of Institution**

California First National Bank is an Internet-based commercial bank headquartered in Irvine, California. In its Consolidated Report of Condition and Income as of September 30, 2007, the bank reported total assets of \$176.3 million, consisting mainly of \$127.8 million in commercial leases. Deposits totaled \$133.5 million, and Tier 1 Capital totaled \$38.6 million. Additional financial information is provided in Table 1.

The bank is a wholly-owned subsidiary of California First National Bancorp, a one-bank holding company also headquartered in Irvine. As of September 30, 2007, the holding company reported \$337.5 million in total assets, consisting mainly of \$236.1 million in net leases of its subsidiary leasing companies. The holding company had equity capital of \$199.4 million.

CFNB adequately meets the credit needs of its AA, consistent with its size, financial resources, complexity, legal constraints, and other barriers that hinder its ability to participate in

community development activities. Under its approved operating charter, leasing activity is limited primarily to commercial leases, which is the primary reason it is designated as a “wholesale” institution for CRA purposes.

The bank’s business strategy is to fund capital assets that are leased to small- and medium-sized businesses. Currently, the bank markets leases mostly to universities, colleges, for-profit entities, and other organizations throughout the United States. The bank also purchases leases from its affiliates and third-party sources. CFNB has no branch or banking office accessible to the public. The bank delivers its products and services through a variety of electronic delivery channels, primarily the Internet, and offers traditional deposit accounts to retail customers nationwide.

**Table 1: CFNB Financial Information (\$000s)**

	Year-end 2004	Year-end 2005	Year-end 2006	Most Recent Quarter-end 09/30/2007	Average for Evaluation Period
<b>Tier 1 Capital</b>	\$19,295	\$20,683	\$37,059	\$38,589	\$28,906
<b>Total Income</b>	3,885	6,346	9,499	12,320*	8,012
<b>Net Operating Income</b>	848	1,388	1,405	2,039*	1,420
<b>Total Assets</b>	\$74,941	\$109,085	\$147,581	\$176,326	\$126,983

Source: Consolidated Report of Condition and Income and bank reported data. \* Annualized data reported.

## Description of Assessment Area

California First National Bank’s AA meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income census tracts.

The delineated area consists of Los Angeles County and Orange County, which are adjacent counties situated in Southern California. According to the 2000 U.S. Census, Los Angeles County consists of 2,054 census tracts and Orange County consists of 577 census tracts. Los Angeles County forms the “Los-Angeles-Long Beach-Glendale Metropolitan Division” and Orange County forms the “Santa Ana-Anaheim-Irvine Metropolitan Division.” These two Metropolitan Divisions comprise the “Los-Angeles-Long Beach-Santa Ana Metropolitan Statistical Area.”

**Table 2a: Los Angeles County Demographic Description**

	Number	Low	Moderate	Middle	Upper	N/A
<b>Tracts</b>	2,054	9%	28%	28%	34%	1%
<b>Families</b>	2,154,311	24%*	17%*	17%*	42%*	0%*
<b>Businesses</b>	769,909	8%**	21%**	26%**	44%**	1%**
<b>Farms</b>	5,966	4%	15%	31%	50%	<1%

Source: Demographic Data – 2000 U.S. Census, Dun & Bradstreet Data.

[“N/A” tracts are geographies not designated by the U.S. Census according to a specific income level.]

\* Represents families by income level.

\*\* Represents businesses by income level of census tract.

Los Angeles County is bounded by the counties of Ventura to the west, Kern to the north, Orange and San Bernardino to the east, and by the Pacific Ocean to the south. The county is

one of the largest in the nation with 4,084 square miles. It benefits from a complex air, sea, and land transportation network, including a major seaport and one of the nation's busiest airports.

Los Angeles County is a highly diverse urban area with 88 cities. More than 65% of the county is unincorporated. The county's economic diversity and its location create a major port of entry for new arrivals from Latin America and Asia. Although the county's economy has slowed in recent months, growth remains moderate as the county has the nation's top international trade center and the largest manufacturing center.

The unemployment rate reflected a downward trend over the past four years. The California Employment Development Department (CAEDD) reported an October 2007 unemployment rate of 5.0% in Los Angeles County, somewhat better than the state unemployment rate of 5.4%. The employed labor force at October 2007 was approximately 4.9 million. CAEDD projects net jobs will increase 1.0% per year with most of the growth in the education and health services, professional and business services, leisure and hospitality, and retail trade sectors.

Major employers include Kaiser Permanente, Northrop Grumman Corporation, Boeing Company, Kroger Company, University of Southern California, Bank of America Corporation, Vons, and Target Corporation. The Los Angeles area also has many jobs dependent on the television and film industries.

Los Angeles County is the most populous county in the nation. The population was 9,519,338 according to the 2000 U.S. Census. The California Department of Finance updated the population to 10,331,939 for 2007. The 2000 U.S. Census also reported the median housing value in the area was \$240,248 with 46% of all housing units owner-occupied. The California Association of Realtors (CAR) updated the October 2007 median home value to \$583,163. The U.S. Department of Housing and Urban Development updated the 2007 median family income to \$56,500. Dun & Bradstreet 2006 economic data reflect that small businesses with annual revenues of less than \$1 million represent the majority of the number of businesses in the area.

Los Angeles County is one of the least affordable housing markets in the state. Only 20% of households can afford a median-priced home. In the third quarter of 2007, the CAR reported the minimum qualifying income for a first time home buyer is \$103,139 to purchase a \$500,130 house

Accordingly, the predominant community development need is affordable housing for low- and moderate-income families. Housing production, for ownership and rental, has not kept pace with job growth and demand. Most developments in Los Angeles County are in-fill housing developments, and land costs are prohibitive for affordable developments.

**Table 2b: Orange County Demographic Description**

	Number	Low	Moderate	Middle	Upper	N/A
<b>Tracts</b>	577	4%	27%	33%	36%	<1%
<b>Families</b>	673,912	21%*	18%*	20%*	41%*	0%*
<b>Businesses</b>	274,173	3%**	29%**	35%**	32%**	1%**
<b>Farms</b>	3,053	3%	26%	35%	36%	<1%

Source: Demographic Data – 2000 U.S. Census and Dun & Bradstreet Data.

[“N/A” tracts are geographies not designated by the U.S. Census according to a specific income level.]

\* Represents families by income level.

\*\* Represents businesses by income level of census tract.

Orange County is primarily an urban area, bounded by the counties of Los Angeles to the northwest, San Bernardino to the north, Riverside to the northeast, San Diego to the southeast, and by the Pacific Ocean to the southwest. Orange County has extensive transportation facilities including airports, railroads, and freeways. The freeway system connects the county’s labor force to employment centers in Los Angeles as well as providing extensive access within county borders.

The economy is diverse with comparatively low unemployment. Orange County’s unemployment rate is consistently lower than the state’s unemployment rate. The California Employment Development Department (CAEDD) reported an October 2007 unemployment rate of 4.2% compared to the state unemployment rate of 5.4%. The employed labor force at October 2007 was approximately 1.6 million. CAEDD projects net jobs will increase 1.9% per year with most of the growth in the professional and business services sector. The leisure and hospitality, government, local education, and retail trade sectors contribute to projected job growth. The economy has steadily expanded with a 2% per annum growth rate since mid-2003. Major employers include Walt Disney Company, County of Orange, University of California at Irvine, and Boeing Company.

According to the 2000 U.S. Census, the population in Orange County was 2,846,289 making it the third most populous county in the state after Los Angeles and San Diego counties. The California Department of Finance updated the population to 3,098,121 for 2007. The 2000 U.S. Census reported the median housing value in the area was \$275,476 with 59% of all housing units owner-occupied. The California Association of Realtors (CAR) updated the October 2007 median home value to \$585,000. The U.S. Department of Housing and Urban Development updated the 2007 median family income to \$78,700. Dun & Bradstreet 2006 economic data reflect that small businesses with annual revenues of less than \$1 million represent the majority of the number of businesses in the area.

Similar to Los Angeles County, Orange County is among the least affordable housing markets in the state. Approximately 24% of households can afford to buy a median-priced home. In the third quarter of 2007, the CAR reported the minimum qualifying income for a first time home buyer is \$122,817 to purchase a \$595,550 house.

The predominant community development need is affordable housing for low and moderate-income families. Housing production, for ownership and rental, has not kept pace with job growth and demand. Most developments in Orange County are in-fill housing developments, and land costs are mostly prohibitive for “affordable” developments.

## **Opportunities for Community Development Lending, Investments and Services in the Assessment Area**

There are many opportunities for community development lending, investments and services in the bank's AA. Examiners contacted three community development organizations: a non-profit entity operating as provider and source of financing for affordable housing and two community development financial institutions.

These organizations report that primary credit needs in the area continue to be financing for affordable housing and other types of credit for small businesses. One organization reported a need to finance small developers of affordable housing projects in low and moderate income areas of Los Angeles and Orange counties. A community development financial institution reported financing needs for real estate-based loans that do not fit traditional financial institution models. Another organization reported the need to provide commercial loans to small businesses, especially those owned by minorities and women located in low- and moderate-income areas.

There are opportunities for community development investments and services in the bank's AA. Community development organizations reported a critical need for affordable housing as well as transitional shelter for low- and moderate-income persons. They reported that financial institutions can participate in affordable housing loan pools to expand the capital base and to help address this need.

## **Conclusions about Performance**

### **Summary**

As noted earlier in this evaluation, the bank's overall CRA performance is "Satisfactory." The level of CFNB's community development activities is adequate; the responsiveness to community credit needs is adequate; innovativeness is rare. We took into consideration the bank's capacity; its niche business strategy and related restrictions under its regulatory charter; the very small number of staff; and the available opportunities given those factors.

A summary of the level, innovativeness, and responsiveness to community credit needs of the bank's community development activities follows.

#### *Level of Activity*

- During this evaluation period, CFNB originated \$1.24 million in qualified investments consisting of a mortgage-backed security (MBS), which is secured by loans to low- and moderate-income borrowers within the bank's defined AA.
- The bank has another qualified investment of \$313,834 that remains outstanding from the prior CRA evaluation period, which factors into this current evaluation. This also is an investment in MBS secured by loans to low- and moderate-income borrowers within the AA.

- The bank's president has been actively involved in a community services organization. As a board member of the organization, he has provided financial technical assistance and directly helped raise a significant level of funding for emergency housing shelters during the evaluation period.

### Innovation or Complexity

We consider CFNB's use of innovative or complex community development activities as rare. The bank did not originate any highly "innovative" or "complex" community development loans during this evaluation period.

However, the bank purchased a new community development investment during this evaluation period that directly benefits low- and moderate-income persons. We consider it as complex given the difficulty the bank encountered in diligently acquiring this investment. For a description, refer to the comments below under "Qualified Investments."

### Responsiveness to Community Credit Needs

The bank's responsiveness to the credit and community development needs in its AA is adequate. We interviewed community organizations, which identified affordable housing financing, micro-loans, and other types of credit for small businesses as the area's most pressing credit needs. Virtually all of the bank's community development activity dollars are directed toward a critical need for affordable housing needs and small business equipment-financing.

A detailed description of the bank's qualified investments, community development loans, and services follows.

## **Qualified Investments**

CFNB's level of community development investments is adequate. During the evaluation period, the bank's investments represented 5.32% of average Tier 1 Capital. In addition, investments are responsive to the critical needs of the AA. For example, our community contacts identified affordable housing as a primary need in the AA. All but approximately \$11,000 of the bank's total investments supports the affordable housing needs of low- and moderate-income persons. The balance of the investments support community development services targeted to low- and moderate-income persons. Examples of these investments follow.

- The bank invested \$1.21 million in a mortgage-backed security (MBS) that funded mortgages to twelve moderate-income families within the AA. In addition, the bank has a qualified MBS investment of \$313,834 that remains outstanding from the prior CRA evaluation period, which factors into this CRA evaluation.
- The bank contributed two \$5,000 donations to a non-profit agency licensed by the State of California and the County of Los Angeles to provide short-term shelter as well as

assessment and treatment services to low- and moderate-income youth. The organization's goal is to assist these at-risk youths in their self-improvement and teach them essential skills to help in their future placement and to become self-sufficient.

- The bank also contributed \$1,000 to a local children's hospital to support health care, services, education, and research for the benefit of the children of Orange County. The donation helps the hospital ensure that children receive the needed health care regardless of ability to pay for services, which includes low- and moderate-income persons.

Table 3 provides an overview of the bank's community development investment and grants. Table 4 shows the investment activity in relation to the bank's financial capacity.

**Table 3: Qualified Investment Activity (\$000s)**

	<b>Benefits AA</b>
<b>Originated Investments</b>	\$1,211
<b>Originated Grants</b>	11
<b>Prior-Period Investments that Remain Outstanding</b>	314
<b>Total Qualified Investments</b>	\$1,536

**Table 4: Qualified Investment Percentages**

	<b>Benefit AA (%)</b>
<b>Total Investments/Average Tier 1 Capital</b>	5.31%
<b>Total Investments/Average Total Income</b>	19.17%

## Community Development Lending

As noted above under the "Description of Institution," CFNB's operating charter restricts its lending activity primarily to commercial leases. During the evaluation period, the bank originated two qualifying leases totaling \$737,308 to businesses located within its AA. We concluded that the level, innovation, and responsiveness to community development needs within the bank's AA are adequate.

- One lease of \$288,940 funded equipment for a statewide non-profit foundation. This foundation makes grants to organizations that directly target low- and moderate-income individuals and communities. While not considered innovative or complex, the lease helps meet the foundation's mission to expand affordable, quality health care to underserved low- and moderate-income individuals and communities.
- Another lease funded telephone switch equipment to a business that provides affordable long distance service. The business is headquartered in a low-income census tract in the Pico Union District of Los Angeles that services this geography and benefits low- and moderate-income individuals within the bank's AA. This business has grown significantly over the years. While not considered innovative or complex in



nature, the lease to this business helps supports permanent job creation in this low-income area.

Table 5 shows the bank's community development lending as a percentage of its average Tier 1 Capital and average total income.

**Table 5: Community Development Lending Percentages**

	<b>Benefits AA (%)</b>
<b>Total CD Lending/Average Tier 1 Capital</b>	2.55%
<b>Total CD Lending/Average Total Income</b>	9.20%

## **Community Development Services**

The bank has demonstrated adequate responsiveness to community development needs within the AA through community development services. Given its charter restrictions and limited operating staff, participation in service activities is more difficult for this bank than for a more traditional community bank. However, management is making reasonable efforts to provide services that contribute to community development within the bank's AA.

- The bank's president has served for three years on the board of a community services organization. While its services are available to the general public, the organization has programs specifically targeted to low- and moderate-income persons including low-income at-risk youth. As a board member, the bank's president has contributed financial expertise and helped arrange financing to provide short- and long-term shelter for the homeless, especially for low- and moderate-income youth. During the evaluation period, he directly helped arrange \$750,000 in outside financing for this purpose.
- Due to the impact of Hurricane Katrina in the New Orleans area in 2005, CFNB granted a deferral of the payments and restructuring of four leases to a university that suffered severe flood damage. At that time, the leases totaled \$1.2 million. The bank allowed a moratorium on lease payments from September 2005 to March 2006. This allowed the university time for clean up, damage repair, and resumption of operations. As of September 30, 2007, two leases totaling \$300,642 remain outstanding. Because the bank adequately met the CRA-related needs of its local communities, we gave positive consideration for activities that support the revitalization and stabilization of this "federally-designated disaster area."

## **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.

## Definitions and Common Abbreviations

The following terms and abbreviations are used throughout this performance evaluation. The definitions are intended to provide the reader with a general understanding of the terms, not a strict legal definition.

**Affiliate:** Any company that controls, is controlled by, or is under common control with another company. A company is under common control with another company if both companies are directly or indirectly controlled by the same company. A bank subsidiary is controlled by the bank and is, therefore, an affiliate.

**Assessment Area (AA):** A geographic area that consists generally of one or more MSAs (using the MSA boundaries that were in effect as of January 1 of the calendar year in which the delineation is made) or one or more contiguous political subdivisions, such as counties, cities, or towns, in which the bank has its main office, branches, and deposit-taking ATMs.

**Benefit to Assessment Area:** A qualified Community Development activity benefits the AA if (i) the activity benefits areas within the AA, or (ii) the activity has the potential to benefit the AA and is located in the broader statewide or regional area that includes the bank's AA. If a bank has adequately addressed the needs of its AA, then the OCC also considers activities submitted by the bank that benefit areas outside of its AA.

**Census Tract (CT):** Small, locally defined statistical areas within metropolitan statistical areas. These areas are determined by the United States Census Bureau in an attempt to group homogenous populations. A CT has defined boundaries per 10-year census and an average population of 4,000.

**Community Development (CD):** Affordable housing for low- or moderate-income individuals; community services targeted to low- or moderate-income individuals; activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 CFR 121.301) or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize low- or moderate-income geographies.

Effective September 1, 2005, the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation have adopted the following additional language as part of the revitalize or stabilize definition of community development. Activities that revitalize or stabilize-

- (i) Low- or moderate-income geographies;
- (ii) Designated disaster areas; or
- (iii) Distressed or underserved nonmetropolitan middle-income geographies designated by the Board, Federal Deposit Insurance Corporation, and Office of the Comptroller of the Currency, based on-
  - a. Rates of poverty, unemployment, and population loss; or
  - b. Population size, density, and dispersion. Activities that revitalize and stabilize geographies designated based on population size, density, and dispersion if they help to meet essential community needs, including needs of low- and moderate-income individuals.

**Community Reinvestment Act (CRA):** The statute that requires the OCC to evaluate a bank's record of meeting the credit needs of its local community, consistent with the safe and sound operation of the bank, and to take this record into account when evaluating certain corporate applications filed by the bank.

**Geography:** A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

**Median Family Income (MFI):** The median income determined by the United States Census Bureau every 10 years and used to determine the income level category of geographies. Also, it is the median income determined by the Department of Housing and Urban Development annually that is used to determine the income level category of families. For any given geography, the median is the point at which half of the families have income above it and half below it. (See the four categories of median income below.)

- **Low-Income** – An income level that is less than 50% of the MFI.
- **Moderate-Income** – An income level that is at least 50% and less than 80% of the MFI.
- **Middle-Income** – An income level that is at least 80% and less than 120% of the MFI.
- **Upper-Income** – An income level that is 120% or more of the MFI.

**Metropolitan Division:** As defined by Office of Management and Budget, a county or group of counties within a Metropolitan Statistical Area that contains a population of at least 2.5 million. A Metropolitan Division consists of one or more counties that represent an employment center or centers, plus adjacent counties associated with the main county or counties through commuting ties.

**Metropolitan Statistical Area:** An area, defined by the Office of Management and Budget, as having at least one urbanized area that has a population of at least 50,000. The Metropolitan Statistical Area comprises the central county or counties, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

**Net Operating Income:** As listed in the Consolidated Report of Condition and Income: Income before income taxes and extraordinary items and other adjustments. [*Schedule RI - Income Statement, or UBPR "PreTax Operating Income (TE)"*]

**Tier 1 Capital:** The total of common shareholders' equity, perpetual preferred shareholders' equity with noncumulative dividends, retained earnings and minority interests in the equity accounts of consolidated subsidiaries. [*Schedule RC-R - Regulatory Capital, line 3a(1) or UBPR, "Net Tier One"*]

**Total Assets:** Total bank assets as listed in the Consolidated Report of Condition and Income. [*Schedule RC - Balance Sheet, line 12 or UBPR, "Total Assets"*]

**Total Income:** From the Consolidated Report of Condition and Income – Total Interest income plus Total Noninterest income. [*Schedule RI - Income Statement, Total Interest Income, line 1g and Total Noninterest Income, line 5g, except for banks with domestic offices only and total assets less than \$100 million, line 5c or UBPR, "Total Interest Income" and "Noninterest Income"*]

**Wholesale Institution:** An institution that is not in the business of extending home mortgage, small business, small farm, or consumer loans to retail customers and for which a designation as a wholesale bank is in effect.