



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

Washington, DC 20219

PUBLIC DISCLOSURE

May 18, 2009

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

First National Bank of Southern California
Charter Number 18242

3727 Arlington Avenue, Suite 202a
Riverside, CA 92506-0000

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 primary factors supporting the institution's rating follow:

- The geographic distribution of loans within each assessment area compares favorably with area demographics and exceeds the standard for satisfactory performance.
- The bank granted a majority of loans within its assessment areas and meets the standard for satisfactory performance.
- The distribution of lending to business borrowers compares reasonably to area demographics 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, 2007, through March 2009. We sampled commercial loans because they represent the substantial majority of the bank's lending activity.

DESCRIPTION OF INSTITUTION

First National Bank of Southern California is a full-service commercial bank headquartered in Riverside, California. The bank is a wholly-owned subsidiary of Duke Financial Group, Inc., a multi-bank holding company based in Minneapolis, Minnesota. Affiliate banks include State Bank of New Prague and Peoples Bank of Commerce. As of December 31, 2008, the holding company reported total assets of \$751 million.

In November 2007, the holding company merged two of its affiliate banks, First National Bank of North County and Inland Empire National Bank (IENB). The merged bank became First National Bank of Southern California (FNBSC), retaining the national charter of IENB. No branches were newly opened or closed prior to (or following) the merger.

In addition to the Riverside main office, FNBSC has one other branch in Riverside, located in a low-income census tract. The bank also has four branches located in San Diego County, one in each of the following four cities: Fallbrook (moderate-income census tract); Carlsbad (upper income census tract); San Marcos (upper income census tract); and Vista (moderate-income census tract). There is an automatic teller machine at the Main Street branch in Riverside and at the Vista and San Marcos offices.

FNBSC offers a full range of loan and deposit products at all locations. The bank's business strategy focuses on commercial lending, which comprises most of the current loan portfolio.

The bank's Consolidated Report of Condition as of March 31, 2009, shows total assets of \$245 million, total deposits of \$177 million, and equity capital of \$20 million. Total loans of \$186 million represent 76% of total assets. The following chart summarizes the loan portfolio by major loan type as reflected in the Call Report of Condition and Income.

First National Bank of Southern California March 31, 2009 Loan Portfolio by Major Product Type		
Loan Type	(000s)	Percent
Commercial Real Estate	143,092	77%
Construction	18,453	10%
Commercial/Industrial	23,895	13%
Consumer	142	<1%
Other	786	<1%
Total	186,368	100%

**Source: March 31, 2009 Report of Condition and Income*

DESCRIPTION OF ASSESSMENT AREA(S)

FNBSC's two assessment areas (AA) meet regulatory requirements and do not arbitrarily exclude low- or moderate-income geographies.

The Riverside County defined AA consists of 260 contiguous census tracts in Riverside County of Metropolitan Statistical Area (MSA) 40140.

The San Diego defined AA consists of 109 contiguous census tracts in San Diego County of Metropolitan Statistical Area 41740.

RIVERSIDE COUNTY ASSESSMENT AREA

The Riverside County AA consists of whole cities where the bank's branches can reasonably serve the credit needs of communities within the defined area. The delineation does not arbitrarily exclude low- or moderate-income census tracts. The AA is bounded by Orange County to the west, San Bernardino County to the north, San Diego County to the south, and the cities of Temecula and Hemet to the east.

The 2000 U.S. Census reported a population of 1,189,470 in the Riverside County AA. Of the 260 census tracts that comprise the area, 4% are low-income, 24% are moderate-income, 42% are middle-income, and 30% are upper income. The 2000 Census weighted average MSA median family income is \$47,448. The 2008 HUD

updated MSA median family income is \$59,200. The 2000 Census median housing value was \$134,594. Approximately 65 % of all housing units are owner-occupied.

The County of Riverside has been severely affected by the weakening housing market and reflects the downturns in the U.S. and global economies. Single-family house prices have fallen by 50% from their peak at the end of 2006, and analysts expect a further decline of up to 30% through the first half of 2010. Non-residential construction is anticipated to decline as vacancy rates are increasing. Analysts also project the recessionary environment to adversely impact tourism in popular vacation areas like the Coachella Valley and Indian casinos for the remainder of 2009. Weakening business spending and declining demand for durable goods are spurring job losses in manufacturing and business services. [Source: Los Angeles Economic Development Corporation, Economic Forecast, February 2009]

The unemployment rate in Riverside County is 12.8% as of April 2009, above the state unemployment rate of 11% and above the national unemployment rate of 8.9%. The Los Angeles County Economic Development Corporation's (LAEDC) economic outlook for 2009 indicates negative growth for Riverside County. The LAEDC projects a 3.2% decline in jobs during 2009 and another 1.6% decline in 2010. The largest unemployment losses expected in 2009 will come in construction. Retail and manufacturing are projected also to see significant losses. The LAEDC projects modest positive growth for the health services industry in 2009. [Source: California Employment Development Department, April 2009; Los Angeles Economic Development Corporation, Economic Forecast February 2009].

The major industry sectors that contribute to employment are concentrated in government, professional and business services, education and health services, and leisure and hospitality services. The largest area employers are U.S. Marine Corps Air Ground Combat Center; Loma Linda University Adventist Health Science Center; Fort Irwin; Ontario International Airport; University of California, Riverside; and Wal-Mart Stores, Inc. [Source: Moody's Economy, April 2009]

There is strong competition for market share among local financial institutions, including several community banks and branches of large banks. The bank considers its primary competitors in the Riverside AA to be Provident Savings, Premier Service Bank, Bank of Hemet, and Citizens Bank. Large bank branch competitors include Citibank and Union Bank.

SAN DIEGO COUNTY ASSESSMENT AREA

The San Diego County AA consists of whole cities where the bank's branches can reasonably serve the credit needs of communities within the defined area. The delineation does not arbitrarily exclude low- or moderate-income census tracts. The AA is bounded to the north by Orange County, to the east by Interstate 15, to the west by the Pacific Ocean, and by whole contiguous census tracts to the south within reasonable geographic distance of the bank's San Diego branch locations.

The 2000 U.S. Census indicates a population of 578,234 in the San Diego AA. Of the 109 census tracts that comprise the area, 23% are moderate-income, 45% are middle-income and 32% are upper income. There are no low-income census tracts within the delineated area. The weighted average of 2000 census MSA median family income is \$53,544. The 2008 weighted average of HUD updated MSA median family income is \$69,400. The 2000 Census median housing value was \$224,831. Approximately 59% of all housing units are owner-occupied.

The area was one of the state's fastest growing with industries tied to the biotech and military sectors at the beginning of the decade. But, the short term economic outlook for San Diego County is weak, and the jobless rate is expected to rise through the first half of 2010. Semiconductor and computer manufacturing and temporary-employment positions have been the largest contributors to job losses in recent months. The California Employment Development Department reported that the unemployment rate in San Diego County was 9.1% in April 2009, below the state unemployment rate of 11%, but in line with the national unemployment rate of 8.9%. [Source: California Employment Development Department].

San Diego County's major industries include government, professional and business services, retail trade, and education and health services. The employed labor force is approximately 1.4 million as of April 2009. Major employers consist of the Coronado Naval Base; the University of California, San Diego; Sharp HealthCare; Scripps Health; and Qualcomm, Inc. [Source: Moody's Economy, April 2009].

There is strong competition for market share among local financial institutions, including several community banks and branches of large banks. The bank considers its primary competitors in the San Diego AA to be California Community Bank, Discovery Bank, Bank of Escondido, Pacific Western Bank, and Citizens Bank previously Temecula Valley Bank. Large bank branch competitors include Citibank and Union Bank.

To evaluate the credit and community development needs, examiners considered information provided by community development organizations. In conjunction with this examination, we contacted a housing-collaborative in San Diego County. They identified community development needs to be transitional and affordable housing.

First National Bank of Southern California's CRA public file is available for more information about the AA.

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 average quarterly LTD ratio over the past 15 quarters from June 2005 through December 2008, which incorporated the quarterly performance of the merged bank. The bank's average LTD ratio over that period was 87 %. The average LTD ratio of five similarly situated banks was 93 % during the same period (banks with similar asset size headquartered in the San Diego MSA or Riverside MSA).

The bank's quarterly average is slightly below the peer average, but the bank's quarterly ratio trended steadily upward during 2007 and 2008. As a percent of total deposits, the LTD increased from 83 % as of June 2007 to 110 % at year-end 2008.

Lending in Assessment Area

FNBSB granted a majority of loans within its AAs and meets the standard for satisfactory performance.

For this evaluation, we randomly sampled 20 commercial loans the bank originated or purchased from January 2007 through March 2009. We sampled commercial loans since they represent the bank's primary lending activity. The bank originated 75% of the number of loans and 65% of the dollar volume inside the AAs.

Table 1

Lending in the CRA Assessment Areas Commercial Loans January 2007 through March 2009										
Commercial Loan Sample	Number of Loans				Total #	Dollar Amount of Loans				Total \$
	Inside		Outside			Inside		Outside		
	#	%	#	%		\$	%	\$	%	
Percentages	15	75%	5	25%	20	2,735,894	65%	1,494,137	35%	4,230,031

Source: Random sample of 20 bank loan originations from January 2007 through March 2009

Lending to Businesses of Different Sizes

The distribution of lending to business borrowers compares reasonably to area demographics and meets the standard for satisfactory performance.

We analyzed a random sample of 20 commercial loans that the bank originated or

purchased within each of the two AAs from January 2007 through March 2009. Based on each of the two samples, the number of loans (and dollar volume) of loans granted to business borrowers with revenue of \$1 million or less compares reasonably with area demographics in each AA.

San Diego Assessment Area

The bank originated 55 % of loans (by number) and 43 % (by dollar volume) to small business borrowers in the San Diego AA. We placed greater weight on the number of loans for this analysis, and the percentage of the number of sampled loans reasonably compares to small business demographics in the San Diego assessment area.

Riverside Assessment Area

The bank originated 65 % of loans (by number) and 25 % (by dollar volume) to small business borrowers in the Riverside AA. We placed greater weight on the number of loans for this analysis, and the percentage of the number of sampled loans reasonably compared to small business demographics in the Riverside AA.

Table 2a

Lending to Businesses of Different Sizes Distribution of Commercial Loans San Diego - Assessment Area January 2007 through March 2009			
Business Revenue	≤ \$1,000,000	>\$1,000,000	Total
* % of AA Businesses	69%	6%	100% *
** % of Bank Loans in AA by #	55%	45%	100%
** % of Bank Loans in AA by \$	43%	57%	100%

Source: *Dunn & Bradstreet reported revenue data; (25)% of businesses did not report revenue data);
 **Loan Sample

Table 2b

Lending to Businesses of Different Sizes Distribution of Commercial Loans Riverside - Assessment Area January 2007 through March 2009			
Business Revenue	≤ \$1,000,000	>\$1,000,000	Total
* % of AA Businesses	68%	5%	100% *
** % of Bank Loans in AA by #	65%	35%	100%
** % of Bank Loans in AA by \$	25%	75%	100%

Source: *Dunn & Bradstreet reported revenue data; (27)% of businesses did not report revenue data);
 **Loan Sample

Geographic Distribution of Loans

The geographic distribution of loans within each AA compares favorably with area demographics and exceeds the standard for satisfactory performance.

We analyzed 20 commercial loans that the bank originated or purchased within each of the two AAs from January 2007 through March 2009. Based on each of the two samples, the distribution of the number of loans compares favorably to area demographics and very favorably in moderate income census tracts.

In the San Diego AA, the percentage of sampled loans significantly exceeded percentage of small businesses in moderate-income census tracts.

In the Riverside AA, the percentage of sampled loans significantly exceeded the percentage of small businesses in low-income census tracts and compares closely to moderate-income business demographics.

Table 3a

Geographic Distribution of Commercial Loans San Diego Assessment Area January 2007 through March 2009								
Census Tract Income Levels	Low		Moderate		Middle		Upper	
	% of AA Businesses*	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**
Commercial Loan Sample	0%	0%	23%	40%	45%	35%	32%	25%

* Source: Dunn & Bradstreet business data by geographic location (No low-income census tracts in the defined assessment area); **Loan Sample

Table 3b

Geographic Distribution of Commercial Loans Riverside Assessment Area January 2007 through March 2009								
Census Tract Income Levels	Low		Moderate		Middle		Upper	
	% of AA Businesses*	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**	% of AA Businesses	% of Number of FNB Loans**
Commercial Loan Sample	4%	25%	24%	20%	42%	50%	30%	5%

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

Responses to Complaints

FNBSC has not received any written complaints associated with its performance under the Community Reinvestment Act.

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.