



SMALL BANK

Comptroller of the Currency
Administrator of National Banks

PUBLIC DISCLOSURE

January 7, 2003

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Mission Oaks National Bank
Charter Number 24034**

**41530 Enterprise Circle South, Suite 100
Temecula, CA 92590**

**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.

TABLE OF CONTENTS

INSTITUTION'S CRA RATING.....	1
DESCRIPTION OF INSTITUTION	2
DESCRIPTION OF ASSESSMENT AREA	2
CONCLUSIONS ABOUT PERFORMANCE CRITERIA.....	5

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 an 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 **Mission Oaks National Bank**, as prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of September 30, 2002. 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 primary factors supporting this rating are:

- ❑ The loan-to-deposit ratio is reasonable for the bank's size, financial condition, and area credit needs.
- ❑ The majority of loans originated or purchased since the bank opened are within the bank's assessment areas.
- ❑ Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need.
- ❑ The geographic distribution of loans reflects reasonable dispersion in the assessment area given area demographics and the age of the bank.

DESCRIPTION OF INSTITUTION

Mission Oaks National Bank is an independently owned full-service community bank headquartered in Temecula, California. This represents the bank's first CRA evaluation since it opened in November 2000.

The bank provides community access to credit at its main office and one other branch office in the City of Temecula. The two offices are situated within six miles of each other in the same upper-income census tract, and are surrounded by middle- and upper-income census tracts. ATM services are available at both locations. The bank also operates two loan production offices (LPOs) outside its assessment area: one in north San Diego County, California, and the other in Phoenix, Arizona. These LPOs generate Small Business Administration (SBA) loans.

No financial or legal impediments hinder the bank's ability to meet the credit needs of the communities it serves. As of September 30, 2002, the bank had total assets of \$55 million, net loans of \$38 million (69% of total assets), and total deposits of \$48 million. The primary business focus is commercial lending. Commercial real estate, construction, and business loans comprise 90% of the total loan portfolio. The following table reflects the current loan portfolio by major product type.

TOTAL LOANS OUTSTANDING BY MAJOR PRODUCT TYPE AS OF SEPTEMBER 30, 2002

Loan Product	Amount Outstanding (000's)	Percent (%) of Total Loans
Commercial Real Estate and Construction Loans	\$27,740	72%
Business Loans (Including SBA)	\$6,932	18%
Residential Real Estate-Secured	\$2,970	7%
Consumer Loans	\$944	2%
Farm Loans	\$182	<1%
Total Loans	\$38,768	100%

DESCRIPTION OF ASSESSMENT AREA

Mission Oaks National Bank's assessment area meets the requirements of the regulation and does not arbitrarily exclude low- or moderate-income geographies. The area consists of 93 census tracts in Riverside County, bounded by the San Bernardino County line to the north, San Diego County line to the south, Orange County line to the west, and natural boundaries to the east (forest, desert and wilderness areas). The defined area is part of the Riverside-San Bernardino Metropolitan Statistical Area (MSA).

The total population in the bank's defined area was 911,683 according to the 1990 United States Census (the 2000 Census data were not available for analysis at the time of this evaluation).

Median housing value in the area was \$142,240 with 53% of total housing units owner occupied. The following table reflects the area's census tracts by income category, and the population residing in the respective tracts, according to the 1990 Census.

**ASSESSMENT AREA
CENSUS TRACT COMPOSITION**

Census Tract Income Category	Number of Tracts In Area	Percent of Area by Tract Type	1990 Population	Percent of Population within Tract Category
Low Income Tracts	1	1%	2,156	<0.5%
Moderate Income Tracts	24	26%	180,657	20%
Middle Income Tracts	45	48%	446,938	49%
Upper Income Tracts	22	24%	276,964	30%
N/A*	1	1%	4,968	0.5%
Total	93	100%	911,683	100%

[*N/A: one of the 93 census tracts is a non-designated tract (no income reported), consisting primarily of government-owned property.]

The 1990 Census median family income in the area was \$37,274. The Department of Housing and Urban Development (HUD) updated the median family income in 2002 to \$50,300. The following table reflects family distribution by income level, according to the 1990 Census.

**ASSESSMENT AREA
FAMILY DISTRIBUTION**

Family Income Level	Number of Families by Income Level	Percent of Families in Area
Low Income Families	43,216	18%
Moderate Income Families	39,717	17%
Middle Income Families	53,851	23%
Upper Income Families	97,327	42%
Total	234,111	100%

The California Department of Finance forecasts that the Inland Empire region of Southern California (Riverside-San Bernardino MSA) will be the fastest growing urban area of the state. The region is expected to add approximately 1.1 million to the population by 2010, reflecting the increasing number of businesses and residents moving to the area. The rapid growth is due to land availability, as well as the lower land, labor, office space, and housing costs, compared to that of congested coastal Southern California. The central location of the Ontario International Airport provides an added impetus for continued growth.

The California Employment Development Department (CAEDD) recorded growth of 50,000 jobs per year in the MSA between 1999 and 2000. Currently, the largest employers in the region (by number of employees) are government, retail operations, manufacturing firms, and the health care industry. Unemployment of 5.4% for the Riverside-San Bernardino MSA is on par with the

state and nation, where unemployment rates were 6.3% and 5.7%, respectively, according to CAEDD data in December 2002.

The City of Temecula, where the bank's offices are located, is also experiencing rapid growth. Once sparsely populated and largely agricultural, the city saw rapid population growth and economic expansion during the 1990s. By January 2000, Temecula became Riverside County's fifth largest city. Many professionals and young families have migrated from San Diego and Orange counties who are well educated and primarily middle- and upper-income. The 1999 median family income was estimated at \$60,212 with average household income of \$73,695. Between 1990 and 2000, new housing increased by 7,875 units (74%), with all but 716 of units being single-family homes.

Commercial and industrial real estate is rapidly expanding, and an increasing number of mid-size firms are moving to the city. In the last few years, these included Guidant, Bostik, Milgard Manufacturing, and Chemcon International. The influx has added several thousand jobs to the economic base. During the last decade, the number of jobs in the city increased by 11,570 (85%). Leading industries by number of employees are retail trade and manufacturing. Temecula is well known for its Old Town, local wineries, and more recently, casinos. As a result of the related tourism, the third largest industry by number of employees is hotel/amusement. Other major industries include communications, medical devices, and semiconductors.

[Source of data for the City of Temecula: Economic Development Department, City of Temecula, 2002.]

Dun & Bradstreet 2002 economic data show that 52,077 businesses operate within the bank's defined area. Of the 41,600 that report their revenues (1,239 farm and 40,361 non-farm businesses), 92% have annual revenues of less than \$1 million, including 86% with revenues of less than \$500,000.

There is strong competition for market share among area financial institutions, including several community banks and branches of mid-size and large commercial, trust, and savings banks. Competing institutions include Temecula Valley Bank, Community National Bank, Foothill National Bank, Southwest Community Bank, California Bank and Trust, U.S. Bank, Bank of America, and Wells Fargo.

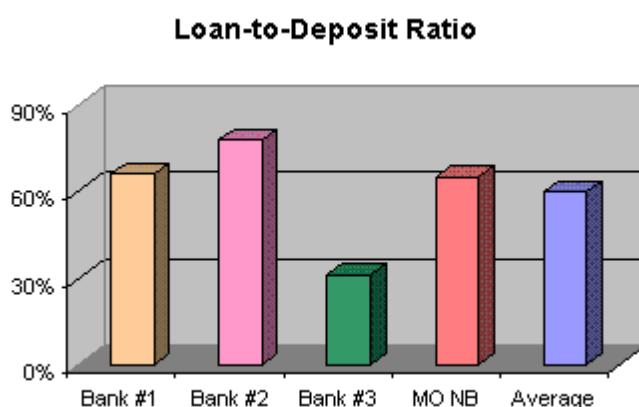
Credit Needs in the Assessment Area

We contacted two organizations to determine primary credit needs within the assessment area: an economic development corporation (EDC) and a local redevelopment agency. The EDC reported that there is a particular need for loans to small businesses in the area, especially loans in small dollar amounts. The redevelopment agency cited the ongoing need for affordable housing for low- and moderate-income persons.

CONCLUSIONS ABOUT PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The bank's loan-to-deposit ratio is reasonable given its size, financial condition, and area credit needs. We evaluated the quarterly average loan-to-deposit ratio over the last 8 quarters since the bank opened. The bank's average loan-to-deposit ratio is 65%. This compares favorably with the 60% average ratio of similarly situated banks (banks with similar asset size and located in the Riverside-San Bernardino MSA). The following chart compares the bank's average loan-to-deposit ratio with similarly situated banks.



Lending within the Assessment Area

Mission Oaks National Bank granted a majority of the number and dollar volume of its loans within its defined assessment area. For this analysis, we reviewed loan data from November 2000 through September 2002. We randomly sampled 20 business loans (including SBA loans) and 20 commercial real estate loans since these represent the bank's primary loan products. Of the loans originated or purchased, 60% of the number of loans and 77% of the dollar volume are within the defined areas. The following table reflects the number and dollar volume of loans the bank originated or purchased inside and outside the assessment area based on our sample.

LENDING IN THE ASSESSMENT AREA November 2000 through September 2002

	Number of Loans	Percent of Total Number	Dollar Volume	Percent of Total Dollar Volume
Inside Area	24	60%	\$11,972,703	77%
Outside Area	16	40%	\$3,521,267	23%
Total Loans	40	100%	\$15,493,970	100%

Lending to Businesses of Different Sizes and Borrowers of Different Incomes

Lending patterns reflect good penetration among businesses of different sizes, especially among small businesses, which is an identified community credit need. The bank originated a majority of the number and dollar volume of its business loans to small businesses (having gross annual revenue of \$1 million or less). Additionally, the bank grants small-sized loans to businesses, which is also an identified community credit need. A majority of the number of loans granted were small loans (\$100,000 or less).

We randomly sampled 20 business loans that the bank originated or purchased from November 2000 through September 2002. We did not analyze consumer lending to borrowers of different income levels because the bank is primarily a commercial lender, and consumer lending is not a significant activity. We did not analyze commercial real estate loans because they do not provide for a meaningful comparison among businesses of different sizes, particularly small businesses. The following tables reflect the bank's record of lending to businesses of different sizes based on our sample.

**LENDING TO BUSINESSES OF DIFFERENT SIZES
DISTRIBUTION BY BUSINESS SIZE
November 2000 through September 2002**

Business Revenues	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollar Volume
< \$1 Million	12	60%	\$1,028,750	52%
> \$1 Million	8	40%	\$955,000	48%
Total	20	100%	\$1,983,750	100%

**LENDING TO BUSINESSES OF DIFFERENT SIZES
LOAN SIZE DISTRIBUTION
November 2000 through September 2002**

Loan Size	Number of Loans	Percent of Total Number	Dollar Volume of Loans	Percent of Total Dollar Volume
<=\$100,000	16	80%	\$757,750	38%
>\$100,000 to \$250,000	2	10%	\$426,000	22%
>=\$250,000 to \$1 Million	2	10%	\$800,000	40%
> \$1 Million	0	0%	-0-	0%
Total	20	100%	\$1,983,750	100%

Geographic Distribution of Loans

The distribution of loans reflects reasonable geographic dispersion given area demographics, the bank's age, and its business strategy. Our analysis reflects that the bank granted the substantial majority of the number and dollar volume of loans in upper-income census tracts. There were no loans in moderate-income census tracts, and none in the one low-income tract in the defined area. This lending pattern is primarily explained by the fact that both offices are surrounded by upper- and middle-income census tracts. As expected during the bank's early years of operations, businesses seeking to establish a borrowing relationship are those based within these adjacent locations.

Additionally, 75% of area businesses are located in middle- and upper-income census tracts (41% and 34%, respectively). As such, opportunities for business lending are significantly greater in the middle- and upper-income geographies. The moderate-income census tracts are located at least 30 to 45 minutes from the bank. These represent well-established communities with numerous financial institutions currently servicing those areas. Potential borrowers are less likely to travel the greater distance, especially given the relatively recent opening of Mission Oaks National Bank. The bank expects lending patterns to expand and include moderate-income areas over time, given current growth strategies. The one low-income census tract in the assessment area consists mainly of the University of California, Riverside, with negligible business lending opportunities.

For this analysis, we randomly sampled 20 business loans that the bank originated or purchased from November 2000 through September 2002. We did not analyze consumer-lending patterns because the bank is primarily a commercial lender, and consumer lending is not a significant activity. The following table reflects the geographic distribution of the bank's business loans by census tract category based on our sample.

GEOGRAPHIC DISTRIBUTION OF BUSINESS LOANS November 2000 through September 2002

Census Tract Income Level	Businesses in Area		Number of Loans Originated in Area		Dollar Volume of Loans Originated in Area	
	Number of Businesses	Percent of Businesses	Number of Loans	Percent of Number	Dollar Volume	Percent of Dollar Volume
Low	98	<1%	-0-	0%	-0-	0%
Moderate	9,979	24%	-0-	0%	-0-	0%
Middle	17,246	41%	1	5%	\$50,000	3%
Upper	14,257	34%	19	95%	\$1,933,750	97%
N/A*	20	<1%	-0-	0%	-0-	0%
Total	41,600	100%	20	100%	\$1,983,750	100%

[*N/A: of 41,600 businesses reporting revenue in the area, 20 are located in a non-designated census tract.]

Responses to Complaints

Mission Oaks National Bank has received no complaints about its performance under the Community Reinvestment Act during this evaluation period.

Record of Compliance with Fair Lending Laws

We performed an analysis of public comments and consumer complaint information according to the OCC's risk-based approach to fair lending. Based on analysis of the information, the OCC determined that a comprehensive fair lending examination would not be required in connection with the CRA evaluation this year.