

PUBLIC DISCLOSURE

March 3, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**California Center Bank
12-06-0652-0000**

**2222 West Olympic Blvd
Los Angeles, CA 90006**

**FEDERAL RESERVE BANK OF SAN FRANCISCO
101 MARKET STREET
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 **California Center Bank** prepared by **Federal Reserve Bank of San Francisco** the institution's supervisory agency, as of March 3, 1997. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION

INSTITUTION'S CRA RATING: This institution is rated needs to improve.

California Center Bank's overall level of performance under the new CRA regulation is needs to improve. Although the bank's responsiveness to assessment area credit needs is good and a high percentage of the loans are made within the assessment area, the geographic dispersion of its small business and auto loans within the assessment area is poor. While banks are not required to lend in every geography, there continues to be conspicuous lending gaps in the assessment area. At this examination and at the previous examination, areas were identified in which the bank historically had gaps in their lending dispersion that cannot be adequately explained by the performance context. Management again identified similar gaps during the review of the bank's loan distribution in January 1997 which included areas such as South Central Los Angeles, Compton, and Crenshaw areas. Management has stated that there is a commitment to improve the situation. However, the lending gaps remain, and, therefore, the bank received a low satisfactory rating for the lending test.

The bank also received a low satisfactory rating for the service test. Improvement is needed in the accessibility of the bank's delivery systems to low-and moderate-income geographies and individuals. The investment test was rated needs to improve. The level of investment was small given the asset size (\$280 million) of the bank. Additionally, the investments were neither innovative nor complex.

The following table indicates the performance level of California Center Bank with respect to the lending, investment, and service tests.

| PERFORMANCE LEVELS | PERFORMANCE TESTS for <u>California Center Bank</u> | | |
|---------------------------|---|-----------------|--------------|
| | Lending Test* | Investment Test | Service Test |
| Outstanding | | | |
| High Satisfactory | | | |
| Low Satisfactory | X | | X |
| Needs to Improve | | X | |
| Substantial Noncompliance | | | |

* Note: The lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

DESCRIPTION OF INSTITUTION

California Center Bank, a wholly owned institution, was established in 1980 and currently has five full-service branches and one satellite office. With the exception of the Garden Grove Office in Orange County, the bank's offices are located in and near Koreatown, downtown Los Angeles and Gardena in Los Angeles County. As of December 31, 1996, the bank had assets of \$280 million and has identified small business loans as its primary market. The bank offers a full range of business loans which include: secured and unsecured commercial loans, short-term and long-term lines of credit, SBA loans, trade finance lines of credit, and commercial construction loans. The bank also offers consumer loans which include: automobile, credit card, equity, overdraft protection and home improvement. The bank's loan portfolio as of December 31, 1996 (\$118,656M) was comprised of 98% commercial and 2% consumer loans. Other than the bank's legal lending limit there are no apparent factors which would impede the bank's ability to meet local credit needs.

California Center Bank's assessment area is comprised of Los Angeles County and Orange County consisting of 961 census tracts. Los Angeles County (843 census tracts) covers 88% of the total number of census tracts and Orange County (118 census tracts) covers 12% of the total number of census tracts. The family Metropolitan Statistical Area (MSA) median income for the Los Angeles County area is \$39,582, and for Orange County, that figure is \$51,269. The total population of the assessment area is approximately 3.7 million and the overall assessment area's family median income is \$34,582. Many of the census tracts (460 or 48%) are low-and moderate-income areas. Table 1 illustrates the census tract distribution by income categories and table 1a illustrates the population distribution within those tracts.

Table I - Census Tracts for Loan Angeles and Orange County

| | Low | Moderate | Middle | Upper | TOTAL |
|---------------|--------------|-----------------|---------------|--------------|---------------|
| LA County | 157 (19%) | 256 (30%) | 192 (23%) | 238 (28%) | 843 (100%) |
| Orange County | 4 (3%) | 43 (37%) | 64 (54%) | 7 (6%) | 118 (100%) |

Table Ia - Population for Los Angeles and Orange County

| | Low Income Tracts | Moderate Income Tracts | Middle Income Tracts | Upper Income Tracts | TOTAL |
|---------------|-------------------------|------------------------------|----------------------------|---------------------------|---------------------|
| LA County | 464,667 (22%) | 342,973 (17%) | 401,193 (20%) | 827,271 (41%) | 2,036,104 (100%) |
| Orange County | 110,121 (19%) | 112,216 (18%) | 139,194 (24%) | 228,959 (39%) | 590,490 (100%) |

As shown in the table below (Table II), a large percentage of families are low- and moderate-income.

Table II - Assessment Area Population

| | Low | Moderate | Middle | Upper | TOTAL |
|----------------|------------------|------------------|------------------|------------------|---------------------|
| Total Families | 310,255 (29%) | 203,453 (18%) | 207,635 (19%) | 365,519 (34%) | 1,086,862 (100%) |

At the previous examination, the bank received a satisfactory rating for its CRA performance. However, at this examination examiners determined that California Center Bank has not met the credit needs of the community in a manner consistent with its size and resources. As a result, the bank's rating has declined to "needs to improve".

CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

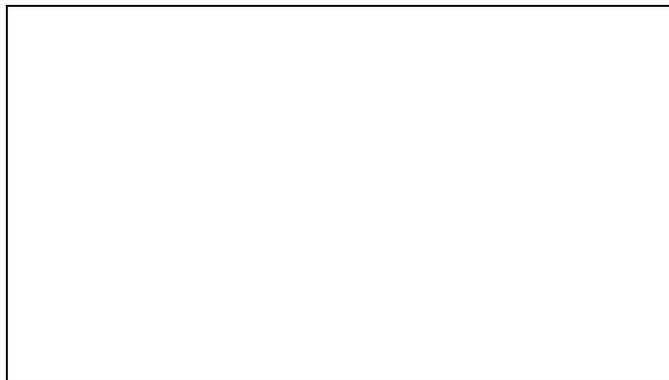
The review of the bank's new credit extensions for 1996 included small business loans, credit cards, consumer loans, and other secured loans (small business loans secured by certificates of deposit). The credits were evaluated to determine the bank's level of performance under the revised Community Reinvestment Act regulation. The factors evaluated in this assessment included the bank's overall lending activity, geographic distribution of loans, borrower's income levels, the bank's responsiveness to credit needs, community development lending, investments within the community, and accessibility of services.

LENDING TEST

LENDING ACTIVITY

The lending activity reviewed for the bank's CRA performance consisted of four of the bank's major products: small business loans, credit cards, consumer instalment loans, and other secured credits (i.e., small business loans secured by certificates of deposit). The review period included loans extended from March 1996 through December 1996 that were made to residents or businesses located within the bank's assessment area. During that period, the bank extended 99 new small business loans totaling \$11.7M; 89 credit cards totaling \$199,100; 36 consumer instalment loans totaling \$506,887; 56 other secured loans totaling \$5.3 million; and 10 SBA loans totaling \$2.3 million.

The bank's quarterly average loan-to-deposit ratio since the previous examination is 51.53%. The following graph illustrates California Center Bank's loan-to-deposit ratio over the last four quarters and compares it with the ratio of two bank's that have similar loan portfolios, asset size and number of offices.



Although the commensurate has been a the loan to

bank's lending is with its peers, there significant decrease in deposit ratio since the

previous examination. The ratio has declined from a high of 56.63% in the first quarter of 1996 to a low of 47.32% in the fourth quarter of 1996. Management indicated that the decline is due to its efforts to decrease the bank's concentration of real estate secured loans. However, there are many credit opportunities available for bank participation which do not involve this type of lending. According to information gathered from community representatives, community credit needs include loans for start-up businesses, business loans for amounts of \$5,000 to \$100,000 and accounts receivable financing. Additionally, small consumer needs such as automobiles and credit cards were also mentioned.

Based on the bank's relatively low loan-to-deposit ratio the bank appears to have the capacity to increase its lending. Given the bank's additional capacity to lend and lending opportunities within its assessment area, the bank's lending activity is inadequate.

Assessment Area Concentration:

The following chart shows the number and dollar amount of new credit extensions for the review period of March 1996 - December 1996 that were extended to borrowers located within the bank's assessment area (AA).

| PRODUCT | TOTAL # | TOTAL \$ | # & % IN AA | \$ & % IN AA |
|----------------|---------|-----------|-------------|------------------|
| Small Business | 143 | \$17.2M | 99 69% | \$11.7M 68% |
| Credit Card | 132 | \$292,100 | 89 67% | \$199,100 68% |
| Consumer | 74 | \$1.1M | 36 49% | \$507,000 46% |
| Other Secured | 68 | \$7.1M | 56 82% | \$5.3M 75% |
| Overall | 417 | \$25.3M | 280 67% | \$17.2 68% |

As the above chart illustrates, the majority of small business, credit card and other secured loans are made within the bank's assessment area. However, less than half of the consumer loans were extended within the bank's assessment area. This is due to the fact that most of the consumer loans are accommodations to the bank's business customers who live outside the bank's assessment area even though the businesses are located within the assessment area. Nonetheless, overall the percentage of lending within the bank's assessment area, by both dollar amount and numbers, is adequate.



Lending Distribution by

Geography:

An evaluation was made of the bank's lending distribution among the four income levels of census tracts within its assessment area. With respect to the geographic dispersion of loans within the assessment area, the bank's lending performance needs to improve. The following illustrates the number and dollar amount of loans extended by the bank within its assessment area.



The geographic distribution of loans illustrated above evidences an adequate penetration in low- and moderate-income category of census tracts. However, according to the CRA geographic analysis performed by the bank's consultant in October 1996, the bank has extended loans in only 268 of the 961 census tracts within its assessment area, representing lending in only 27.9% of the census tracts and evidencing a low penetration of loans throughout the assessment area.

Although it is not required that the bank make loans in every geography, there are conspicuous gaps in the lending patterns within the assessment area. The Preamble to the CRA Regulation published in the Federal Register, dated May 5, 1995, states that the bank's lending pattern should not exhibit conspicuous gaps that are not adequately explained by the performance context. It was noted that the bank's loans have been made in census tract's farther away while gaps exist in the areas of South Central Los Angeles, Compton and Crenshaw as well as other surrounding areas which are closer to the bank's branches.

The areas of South Central Los Angeles, Compton and Crenshaw are of particular concern because those have been historically underserved areas in relatively close proximity to several of California Center Bank offices. In order to determine demand for credit and credit opportunities in those areas, examiners conducted interviews with representatives from community organizations and government agencies. The community contacts provided information regarding demographic and economic conditions in those areas.

South Central Los Angeles, Compton, and Crenshaw are three of the most economically disadvantaged areas of the county. The median household income is \$19,500, which is

approximately 50% of the county median income. The poverty rate is over 20%. Although income levels are low, there is significant demand for consumer goods and services due to the high population density. Over 900,000 people live in this 52-square mile area; approximately 17,000 people per square mile.

Rebuild LA (RLA), a non-profit organization formed following the civil unrest in 1992, conducted a community needs assessment of South Central Los Angeles, and found that, although historically disinvested, the area supports a relatively high level of economic activity. There are over 15,000 manufacturing firms including bio-chemical technology, furniture, apparel/textile, toy and food processing companies, that generate annual sales of \$54 billion. Additionally, based on a supply and demand analysis, the survey identified the need for new businesses. The primary need is for supermarkets and grocery stores. The 900,000 residents spend over \$1 billion on retail grocery goods, but the existing stores supply only \$637 million of this demand. Furthermore, many businesses still require assistance as a result of financial losses resulting from the 1992 civil unrest.

Bank management identified the gaps and expressed concern about the lending gaps in its new assessment area in early January 1997, as noted in the board minutes. In addition, management also identified a need to expand loan penetration and outreach within the new assessment area and in low-and moderate-income areas.

Lending Distribution by Borrower Income or Business Revenue

A review was made of the bank's lending to borrowers of different income levels and to businesses of different sizes. Of the 99 small business loans extended within the bank's assessment area, 60 (61%) were made to businesses with revenues under \$1 million. A business with annual revenues under \$1 million is considered a small business. A total of \$3.6 million (31%) of \$11.7 million in loans extended was to small business owners. The evaluation of consumer loans is determined by the level of the borrower's income as compared to the median income within the area. Of the 89 credit cards issued to new borrowers within the bank's assessment area, 46 (54%) were issued to low- and moderate-income borrowers. A total of \$67,500 (36%) was extended for credit cards to low-and moderate-income borrowers. Income information was available for only 20 of the consumer loans extended because the bank does not require income verification for loans fully secured by deposits. Twelve consumer loans (60%) totaling \$113,000 (48%) were extended to low-and moderate-income individuals. Financial information was not available for any of the other secured credits since these loans were secured by certificates of deposit; therefore an analysis of those loans could not be performed. Overall, the distribution of borrowers reflects adequate penetration among individuals of different income levels and businesses of different sizes.

Responsiveness to Credit Needs of highly economically disadvantaged geographies and low-income persons, and small businesses:

The bank has extended credit to very small businesses with loans between \$5,000 and \$20,000 and loans to individuals of very low-income for less than \$20,000. However, many areas have been

identified within the bank's assessment area that are underserved. There are numerous low-income census tracts that evidence no lending. A geographic analysis of the new loans extended in 1996 indicates that the bank is not adequately serving the credit needs of its community. Examiners identified South Central Los Angeles, Compton, and Crenshaw as areas having low or no loan penetration despite high business concentrations. Overall, the bank's responsiveness to serving the credit needs of highly disadvantaged geographies and low-income persons in its assessment area is poor.

Community Development Lending:

The bank has made few community development loans. The bank joined the California Community Reinvestment Corporation (CCRC) in October 1996 with a commitment of \$500,000. The CCRC unites a consortia of banks for participation in community investment credits that are funded under the banks' various commitments. The CCRC is dedicated to the development of affordable housing in low- to moderate-income neighborhoods. To date, the bank has advanced \$18,842 to four credit transactions under the agreement.

Innovative or Flexible Lending Practices:

The bank has formed a product innovation committee, but has not developed any new products. The function of the committee is to develop a marketable product that will service the sophisticated demands of its customers.

INVESTMENT TEST

Investment and Grant Activity:

During 1996, the bank committed \$50,000 to become a founding sponsor of a credit union. This sponsorship will assist with the development of the facility for the credit union and will serve low- and moderate-income residents who live in the Pico Union area of Los Angeles. To date, funds have not been advanced due to delays in the approval process. The bank also provided \$5,000 to the credit union for miscellaneous operating costs; \$5,000 to an organization established to assist residents with low-income housing needs; and invested \$100,000 in a municipal bond to a redevelopment program for low-income housing; the bond matured in December 1996. The bank has few qualified community development investments or grants, particularly those that are not routinely provided by private investors. Information obtained from local community contacts indicated that there are numerous opportunities for investments on community development projects in Los Angeles County. A list of some of these organizations was provided to the bank. California Center Bank has a poor level of qualified community development investments and grants.

Responsiveness to Credit and Community Development Needs

The bank exhibits a poor record of serving the credit and community economic development needs

of its assessment area. It has made very little effort to participate in community development opportunities within its assessment area. Community contacts have identified many development projects that are currently in need of investments by local lenders.

Although management explained that the majority of the bank's business loans are located in areas of high business concentrations, examiners identified South Central Los Angeles, Crenshaw, and Compton as areas having low or no loan penetration despite high business concentrations. Additionally, although the previous examination identified South Central as one of the areas in the delineation where there was minimal loan extensions, the bank continues to exhibit poor lending performance in this area. At the current examination, bank management indicated that opportunities for meeting the credit needs of the underserved portions of the community are limited; however, examiners were able to identify a number of lending opportunities in those underserved areas that are compatible with the types of loans the bank offers. In sum, the bank's responsiveness to serving the credit needs of highly disadvantaged geographies and low-income persons and small businesses within its assessment area is poor.

Community Development Initiatives

The bank rarely uses innovative and/or complex investments to support community development initiatives. The bank has made no effort to expand its involvement or participation in meeting community development credit needs.

SERVICE TEST

RETAIL BANKING SERVICES

Distribution of Branches:

The bank currently has delivery systems that are reasonably accessible to a limited portion of the bank's assessment area.

The bank has five full-service offices and one satellite office.

- Downtown and Main offices are located in low-income census tracts
- Western office is located in a moderate-income census tract
- Garden Grove office is located in a moderate-income census tract
- Gardena office is located in a middle-income census tract
- Santee satellite office is located in a low-income census tract

Bank services are not available throughout the assessment area. Most offices have ATMs except for the Downtown and the Santee satellite offices. Management stated that there was no real need for an ATM at those locations because such services are available from other banks. The bank's ATM network includes Instant Teller, Plus, Visa, Exchange, Discover, and Amex. In addition, if a customer uses a non-proprietary ATM, a charge is made by both institutions. The Downtown and Santee offices

are located in low-income areas.

Record of Opening and Closing Branches:

The bank has not opened or closed any branch offices since the previous examination of February 26, 1996. Management has established a written policy that requires an in-depth study of the area affected if it should consider the closure of a branch location. The bank's accessibility of services has not changed since the previous examination.

Alternative Service Delivery Systems:

The bank's business hours are:

- Monday through Thursday (all offices) from 9:00 a.m. to 4:00 p.m.
- Friday from 10:00 a.m. to 6:00 p.m.
 - Downtown office from 9:00 a.m. to 5:00 p.m.
 - Santee Satellite from 9:30 a.m. to 5:00 p.m.
- Saturday (all offices) from 9:00 a.m. to 1:00 p.m.
 - Santee Satellite is closed on Saturday

The Santee Satellite office is closed on Saturday because it is located in the industrial garment district which is not active on the weekend. Those hours of operation are consistent with the needs of the area.

Range of Services by Geography:

The same services are available at all branch locations except the Santee Satellite Office which only cashes checks and receives deposits. The location of the bank's branches, combined with the reasonable hours of operation, demonstrates that services do not vary in a way that inconvenience certain portions of the bank's assessment area, particularly low-and moderate-income geographies and/or individuals.

COMMUNITY DEVELOPMENT SERVICES

Extent of Community Development Services:

During 1996, a lending officer donated 16-20 hours of his personal time each month to the East Los Angeles Small Business Development Center to assist minority borrowers with the preparation of Small Business Administration (SBA) loan packages. However, the program ended in December 1996 due to the lack of funding by the SBA. Bank employees and management also donate time by helping with the rehabilitation and construction of low-income residences. Examiners have identified the need for several community development services including technical assistance

specializing in providing businesses with advice on how to stay in business. Education seminars for small business owners emphasizing government grants, subsidies and guaranties was also identified as a community need. Given its size, the bank has the capacity to offer and participate in additional community development organizations and programs.

COMPLIANCE WITH FAIR LENDING LAWS

The bank is in compliance with the substantial provisions of anti-discrimination laws and regulations such as the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). While there were violations of the ECOA, they were few in number, technical in nature, and did not have a negative effect on the bank's CRA Rating. Moreover, a review of the bank's loan distribution and credit evaluation procedures indicate that no applicants are discouraged from requesting the types of credit offered by the bank.

Generally, the bank has comprehensive policies, procedures, and training programs in place to help prevent discriminatory or other illegal credit practices.

SCOPE OF EXAMINATION:

TIME PERIOD REVIEWED: February 27, 1996 to March 3, 1997

| FINANCIAL INSTITUTION | PRODUCTS REVIEWED |
|------------------------|--|
| California Center Bank | Small Business Credit Card Consumer Other Secured |

| AFFILIATES | AFFILIATE RELATIONSHIP | PRODUCTS REVIEWED |
|------------|------------------------|-------------------|
| None | Not Applicable | Not Applicable |

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION:

| ASSESSMENT AREA | TYPE OF EXAMINATION | BRANCHES VISITED | OTHER INFORMATION |
|------------------------------------|------------------------|-----------------------------|-------------------|
| California MSA 4480 MSA 5945 | On-site On-site | Western Garden Grove | |