

# **PUBLIC DISCLOSURE**

November 12, 1997

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Spectrum Bank  
12-06-0825-0000**

**2417 West Whittier Boulevard  
Montebello, California 90640**

**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.



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## 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 **Spectrum Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **November 12, 1997**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.*

**INSTITUTION'S CRA RATING:** This institution is rated satisfactory.

Evidence was found during the examination that management has taken an affirmative role in meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities. The bank has actively extended loans in small dollar amounts and loans to small businesses, satisfying two credit needs in the assessment area identified by community contacts. Moreover, a substantial portion of the bank's consumer purpose loans have been extended to low- and moderate-income families.

## **DESCRIPTION OF INSTITUTION:**

Spectrum Bank, a wholly-owned bank, opened for business in May 1955, and currently operates two full-service branches in Los Angeles County: the main office is located in the city of Montebello and a branch is located in the adjacent city of Monterey Park. Additionally, the bank has received regulatory approval to open a branch in the city of Irvine in Orange County, which is anticipated to open in January 1998. The bank offers a full range of business loans, which include Small Business Administration (SBA) loans, commercial construction loans, and working capital lines of credit to finance inventory, receivables, and equipment. The bank also offers consumer-purpose loan products that include auto, boat, recreational vehicles, and overdraft protection.

As of June 30, 1997, the bank had total assets of \$68.6 million, a 7.5% decrease (from \$74.2 million) since the previous examination of March 4, 1996. The bank's primary business focus is commercial lending to businesses with annual sales between \$1 million and \$12 million, with credit needs that rarely exceed \$1 million. This focus is evident in the bank's loan portfolio which, as of June 30, 1997, consisted of \$31.2 million (92%) in commercial loans and \$2.7 million (8.1%) in consumer-purpose loans. Although the dollar volume of consumer loans is low relative to the bank's commercial lending, the bank does extend a large number of motor vehicle loans, primarily dealer contracts purchased from two dealers in the assessment area.

At the previous examination, the bank's CRA performance was satisfactory. Spectrum Bank continues to meet the credit needs of its community in a manner consistent with its size and resources. Other than the bank's legal lending limit, there are no apparent factors that would impede the bank's ability to meet local credit needs.

## **DESCRIPTION OF *Los Angeles County*:**

Spectrum Bank has designated a large economically and ethnically diverse assessment area that covers 1,311 of the total 1,652 census tracts in the Los Angeles County. Of those tracts, 163 (12%) are low income, 337 (26%) are moderate income, 411 (31%) are middle income, and 400 (31%) are upper income. The major political subdivisions included in the assessment area are the cities of Los Angeles, Glendale, Pasadena, Long Beach, Pomona, and Torrance. There are a total of 1,570,492 families in the assessment area, with the following income levels: 25% low income; 18% moderate income; 20% middle income; and 38% upper income.

Tables 1 and 1a show the census tract and family distribution, by income categories, within the assessment area.

Table 1

Census Tracts	Low-income	Moderate-income	Middle-income	Upper-income
1,311	163	337	411	400
100%	12%	26%	31%	31%

Table 1a

Families	Low-income	Moderate-income	Middle-income	Upper-income
1,570,492	390,896	275,882	307,559	596,155
100%	25%	18%	20%	38%

Portions of the bank's assessment area experienced an economic recession in the late 1980's and early 1990's, endured the Northridge earthquake, and experienced the civil disturbance in 1992. However, since those disruptive events, the economic environment for businesses has improved in the county as evidenced by the 8.9% increase in the number of start-up companies in Los Angeles County during the first quarter of 1997, as compared to the same period last year.<sup>1</sup> Another indicator of the improved economic climate is the rate of personal bankruptcy filings, which fell 5% in the third quarter in 1997, after a four-year string of increases.<sup>2</sup> Additionally, the unemployment rate has dropped from a seasonally adjusted rate of 8.1% in August, 1996 to 6.6% in August 1997. Although these figures represent a positive economic trend, the county's unemployment rate does not compare as favorably to the state's overall unemployment figure of 6.2% and the nation's figure of 4.9% for the same period.<sup>3</sup> This is an indication that more efforts are needed to spur the economy of Los Angeles County. Community advocates have stated that important changes, such as a reliance on small businesses rather than large corporations, to create opportunities, are required in dealing with substantial economic weaknesses in the county's depressed areas. Moreover, increased partnerships between private, nonprofit, and public sector organizations are essential to coordinate resources to address those community credit needs.

The bank operates most actively in the areas in, and surrounding, the cities of Montebello and Monterey Park. Contacts in these communities mentioned that although Montebello, Monterey Park,

<sup>1</sup> Taken from the April 25, 1996 issue of the San Diego Daily Transcript.

<sup>2</sup> Los Angeles Times, October 18, 1997.

<sup>3</sup> California Economic Development Department, Press Release dated September 19, 1997

and the immediate vicinity did not suffer materially from the Northridge earthquake or civil disturbance, the economic recession adversely affected the business community, particularly the real estate market. As a result, individuals who owned real property that suffered a significant loss in value were unable to offer the equity in their property as collateral to expand new businesses or fund new ventures. The community representatives further indicated that to foster economic growth in economically distressed areas, increased employment opportunities, more affordable housing, and credit to newly established small businesses are needed. Also, it was communicated that closer partnerships between financial institutions and local governments, particularly in providing micro-loans (i.e., below \$50,000) to small businesses, would help spur economic activity.

The City of Montebello is located nine miles east of the Los Angeles Civic Center, occupies approximately eight square miles, and, as of 1995, had a total population of 59,863. The city serves as the home for various industries such as baking and food processing, printing, paper manufacturing, medical services, and trucking. The major employers in Montebello include Orowheat Food Co., Peerless Pump, Kent Landsberg, Monarch Litho, and Beverly Hospital. The city is attractive to industry because of its proximity to downtown Los Angeles and its easy access to several freeways, such as the I-5, 605, and 101.

Monterey Park is contiguous to Montebello and enjoys many of the latter's advantages such as proximity to downtown Los Angeles and easy access to the interstate freeway system. Monterey Park, with an area of almost eight square miles and a population of 63,300 as of 1995, counts among its largest employers Union Bank of California, Sanwa Bank Processing Center, Arrowhead Water, and General Electric Medical Systems. The city's primary industries include food services, printing, financial services, and bank check processing. Also, the city has become well known in Asia and has reaped substantial benefits from Pacific Rim investments. Many corporations located in the city have ties to the Pacific Rim, including the Chinese Daily News and Kajima International.

## **CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:**

The CRA evaluation is based on five performance criteria: the bank's loan-to-deposit ratio, lending to businesses of various revenue sizes and borrowers of different income levels, the geographic distribution of loans within the assessment area, lending within the assessment area, and the bank's response to complaints. Since the bank did not receive any complaints since the previous examination, the latter criterion was not considered in the bank's overall CRA evaluation.

The bank's two main credit products are its small business and motor vehicle loans. Thus, the examination consisted of a review of all small business and motor vehicle loans that the bank had originated since January 1996 through August 1997. Those loans were used to determine the bank's performance with regard to lending inside the assessment area. Also, a statistical sample based on those same loans was analyzed to determine the dispersion of loans in the assessment area by borrower income and business revenue and the distribution of loans among geographies of different income levels.

In addition, examiners reviewed demographic and economic data for the assessment area and interviewed members of the community to obtain information regarding credit needs of the community and efforts made by local financial institutions to meet those needs. As a contextual reference, a national peer group and local peers were identified to determine the level of financial performance for such similarly situated banks.

### **LENDING BY BORROWER INCOME AND BY BUSINESS REVENUE:**

#### **Businesses of Different Sizes**

In determining the bank's lending to businesses of various sizes within the assessment area, the gross revenues of the businesses were collected and analyzed. Since the previous examination, the bank extended a total of 88 small business loans, amounting to \$12.2 million. Examiners focused their review on a statistical sample of 77 loans that were made within the bank's assessment area. Based on this loan sample, 48 loans (62%) and \$5.5 million (55%) of the total dollar amount were made to small businesses with annual revenues of less than \$1 million. In addition, a review of the loan amounts revealed that 39% of the total 88 business-purpose loans that were extended since the previous examination were for amounts of \$50,000 or less. As previously noted, community contacts stressed the need for loans in small dollar amounts not exceeding \$50,000. The bank's extensions of loans to small businesses and for small dollar amounts are demonstrative of its efforts to meet the defined credit needs of the community.

### Business Borrower Distribution

Small Business Loans	# of Loans in Assessment Area	# of Loans to Small Businesses*	# of Loans to Large Businesses
Total Number	77	48	29
% of Total Number	100%	62%	38%
Total \$ Amount of Loans	\$10.0 MM	\$5.5 MM	\$4.5 MM
% of Total Amount	100%	55%	45%

\* A small business is one whose annual revenues are \$1 million or less

### Borrowers of Different Incomes

Examiners also reviewed the distribution of motor vehicle loans to families of different income levels within the assessment area. The analysis was based on a statistical sample of 101 loans that were made within the assessment area and originated by the bank between January 1996 and August 1997. The following chart shows the dispersion of motor vehicle loans to families of different income levels within the assessment area.

### Consumer Borrower Distribution

Family Income Level	Number of Loans (Total – 101)	% of Loans in Assessment Area	% of Families in Assessment Area
Low	43	43	25
Moderate	25	25	18
Middle	20	20	20
Upper	13	13	38

The above distribution of loans shows that the bank has extended loans to borrowers of all income levels within its assessment area. 43% of the motor vehicle loans were made to low-income families which comprised only 25% of the total number of such families, reflecting strong efforts to meet the needs of this income level borrower. The percentage of loans to

moderate-income borrowers also exceeded the percentage of moderate-income families and demonstrates the institution's efforts to respond to moderate-income borrower needs. The distribution to middle-income borrowers was an exact match to the percentage of families and is considered reasonable. Although the percentage of upper income borrowers is significantly lower than the percentage of upper-income families, this segment of the population is not viewed as being underserved with regard to their credit need being met. Overall, the bank's distribution of borrowers is exceptional.

**GEOGRAPHIC DISTRIBUTION OF LOANS:**

The bank's distribution of loans among geographies of different income levels throughout the assessment area is considered reasonable. Examiners utilized the same statistical sample of 77 small business and 101 motor vehicle loans to analyze the bank's distribution of loans and to determine whether any lending gaps existed in certain geographies.

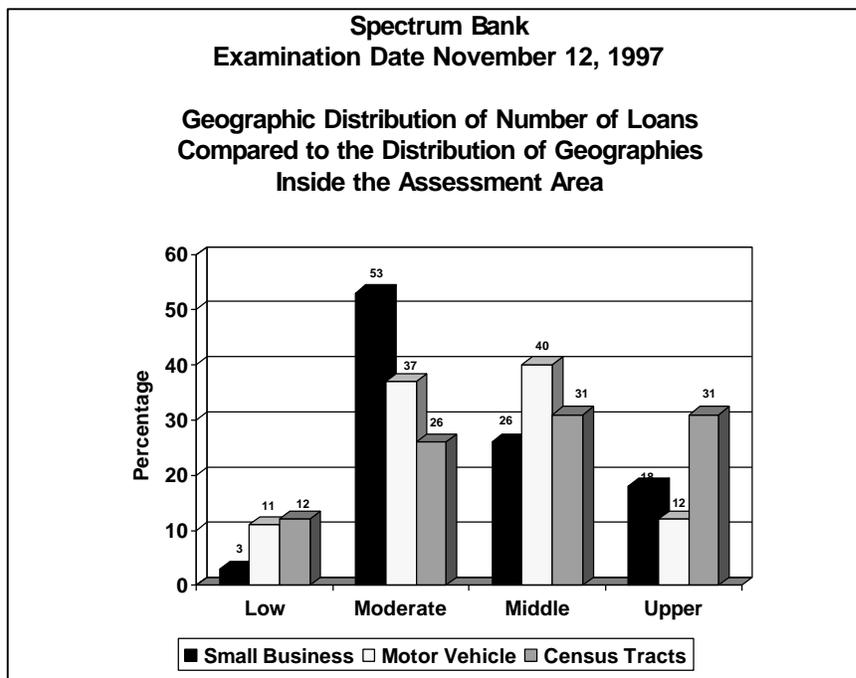
**Small Business Loans**

Census Tract Income Level	Number of Loans	% of Total # of Loans	Total \$ Amount of Loans	% of Total \$ of Loans	% of Census Tracts in AA
Low	2	3	204 M	2	12
Moderate	41	53	6.5 MM	65	26
Middle	20	26	1.7 MM	17	31
Upper	14	18	1.6 MM	16	31

The table shows that the bank extended 3% of the total number and 2% of the total dollar amount of small business loans to low-income census tracts, which comprise 12% of the total number of tracts in the assessment area. This relatively low number of loans in low-income tracts may be attributed to the geographic distance of those tracts from the branches. The bank's performance is more notable in its origination of loans in moderate-income tracts; while those tracts make up only 26% of the assessment area, 53% of the total number of loans and 65% of the total dollar amount went to such tracts. This loan penetration in moderate-income tracts may also be attributed to the location of the bank's branches in relation to these geographies. A substantial majority of the geographies surrounding the bank's branches are moderate-income tracts. The distribution of credits to middle and upper-income geographies is considered reasonable. Overall, the bank's geographic distribution of small business loans shows a reasonable dispersion of loans to census tracts of different income levels.

**Motor Vehicle Loans**

Census Tract Income Level	Number of Loans	% of Total # of Loans	\$ of Total Loans	% of Total \$ of Loans	% of Census Tracts in AA
Low	19	11	94M	10	12
Moderate	62	37	325M	36	26
Middle	67	40	364M	40	31
Upper	20	12	127M	14	31

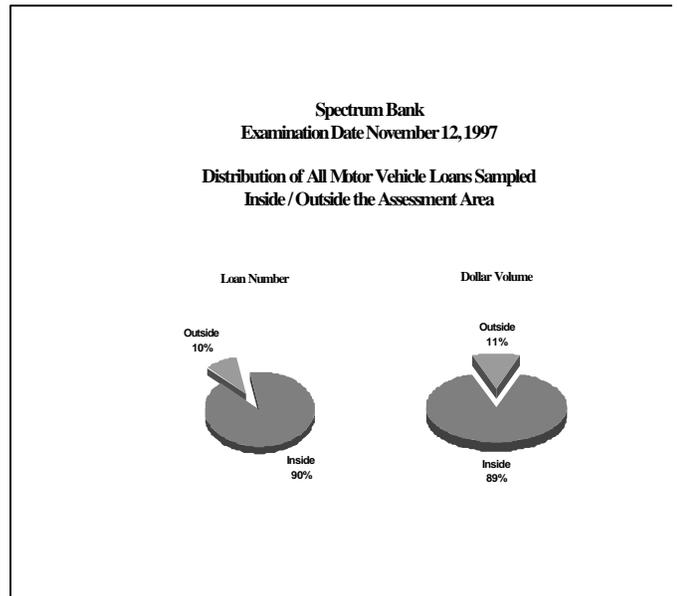
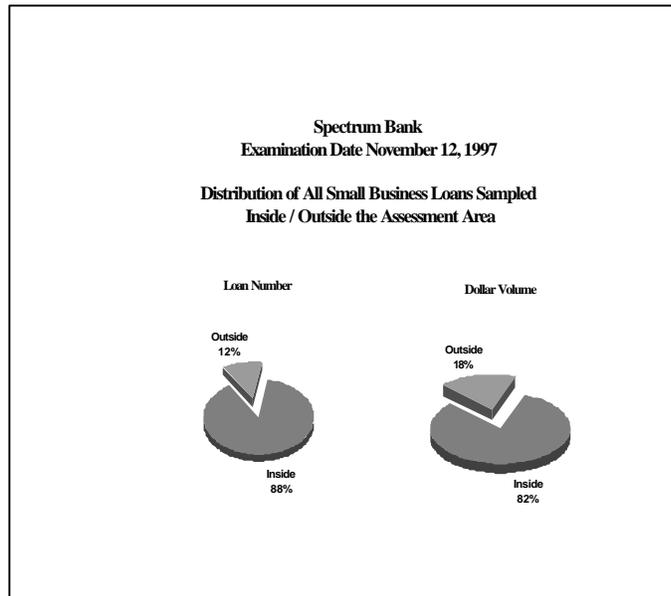


The above table and graph show that 11% of the total number and 10% of the total dollar amount were extended to low-income tracts which comprise 12% of the total number of census tracts in the assessment area. While moderate-income tracts comprised only 26% of the assessment area, 37% of the total number and 36% of the total dollar amount of loans were made in those tracts. Just as the bank's geographic dispersion of small business loans is influenced by the location of the branches, the dispersion of motor vehicle loans is also largely attributable to the location of the dealerships. As previously noted, the census tracts surrounding the dealerships are primarily low- and moderate-income. The distribution of loans in middle-income tracts exceeds the percentage of those tracts and is considered reasonable. Although the percentage of lending in upper-income tracts is low compared to the percentage of upper-income tracts, this is reasonable since those

tracts are not considered to be underserved with regard to credit needs being met. Overall, the geographic distribution of the bank's lending is satisfactory.

**LENDING IN ASSESSMENT AREA:**

The loan sample for the examination included a total of 88 small business loans, totaling \$12.2 million, and 186 motor vehicle loans, totaling \$1.0 million that were extended from January 1996 to August 1997. Of the small business loans, 77 (88%) amounting to \$10.0 million (82%) were made within the assessment area; for the motor vehicle loans, 168 (90%) totaling \$910,800 (89%) were within the assessment area.



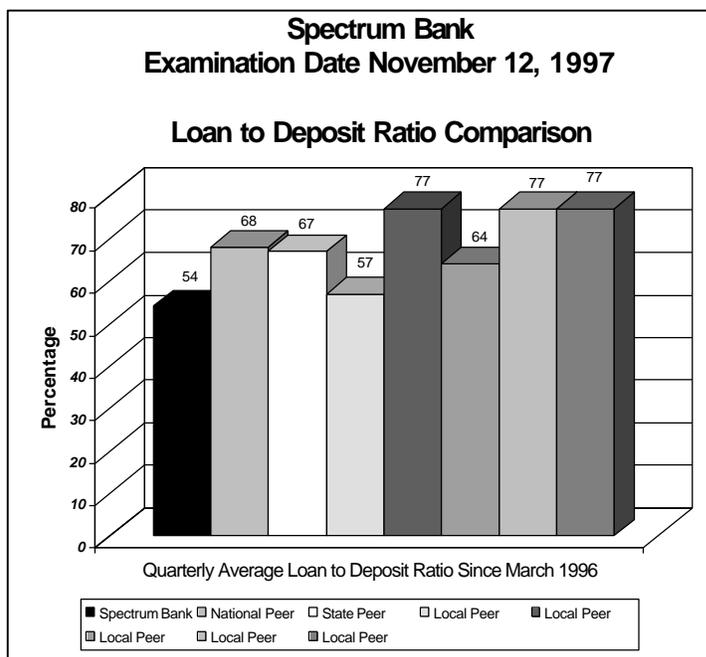
A closer analysis of this distribution indicates that the majority of the small business loans are clustered around the Montebello office while the motor vehicle loans are clustered around the auto dealerships from which the bank purchases contracts. While there are some loans that have been made in census tracts that are outside the assessment area, management stated that these loans are usually referrals from existing customers since the bank does not normally solicit business outside its assessment area. The bank's responsiveness in lending to individuals and businesses within its assessment area meets the standards for a satisfactory performance.

**LOAN-TO-DEPOSIT RATIO:**

In analyzing the bank's loan to deposit (LTD) ratio, a quarterly average since the previous examination (March 1996) was calculated. The bank's average LTD ratio for the past six quarters is 54.3%, which is lower than the state's average LTD of 67.3% and the bank's national peer average of

68.4% for the same period. In addition, examiners identified local peers that share some of the bank's characteristics such as asset size, loan portfolio mix, comparable branching network and business focus, and operate under largely the same economic and demographic environments. Examiners considered those banks that were active in Spectrum Bank's assessment area, particularly in the areas surrounding Montebello and Monterey Park.

The graph below illustrates the quarterly averages of loan-to-deposit ratios, from March 1996 to June 1997, of the bank and its peers.



Management stated that the bank continues to face competition from large and independent banks that actively pursue the same type of business clients in the assessment area, particularly in Montebello and Monterey Park. Community contacts confirmed this assertion stating that there were no less than 20 banks that were active in those two cities. Additionally, the bank operates in the mature market of Montebello that has exhibited a relatively low level of demand. Community contacts mentioned that many small businesses in Montebello that have been in operation for a long time are self-financing and rarely need credit to finance their normal operations.

Despite these obstacles, the bank continues to extend credits to small businesses in the community. In an effort to better meet its community's credit needs, the bank extends loans guaranteed by the Small Business Administration (SBA). Since the previous examination, the bank has approved 20 SBA loans totaling \$4.1 million for various purposes, including capital acquisition, inventory purchase, and capital improvements. The bank may occasionally sell the guaranteed portion of its SBA loans to the secondary market. For the past several years, the bank has placed among the top ten SBA lenders, based upon asset size, in Los Angeles County. Outside contacts

mentioned that business loans for purposes mentioned above are needed in the community.

Considering the bank's capacity to lend, the opportunities in the assessment area and the loans sold to the secondary market, the bank's loan to deposit ratio is adequate.

**RESPONSE TO COMPLAINTS:**

The bank did not receive any complaints about its CRA performance; therefore, the institution's record of taking action in response to such complaints was not evaluated.

**COMPLIANCE WITH FAIR LENDING LAWS AND REGULATIONS:**

The bank is in full compliance with the substantive provisions of anti-discrimination laws and regulations including the Fair Housing Act and Equal Credit Opportunity Act. Although the examination identified a violation of the Equal Credit Opportunity Act, the violation was technical in nature and did not have a discriminatory effect. A review was also made of the bank's credit policy, procedures, and practices which disclosed no evidence indicating discriminatory treatment of credit applicants on a prohibited basis. The bank has kept abreast of changes that affect anti-discrimination laws and regulations, including the Equal Credit Opportunity Act, through various consumer compliance seminars and manuals.

A review of the bank's application and credit evaluation procedures indicated that the bank is not engaged in any practices intended to discourage applicants for the types of credit that the bank offers. In addition, the bank's credit application forms are in compliance with regulatory requirements and do not contain language that would discourage applications.