

# **PUBLIC DISCLOSURE**

**March 30, 1998**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**California Center Bank  
12-06-0652-0000  
2222 Olympic Boulevard  
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.*

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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 for **California Center Bank** prepared by the **Federal Reserve Bank of San Francisco**, the institution's supervisory agency, as of **March 30, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to CFR Part 228.*

## INSTITUTION

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

**Basis for Rating:**

California Center Bank's needs to improve its overall CRA performance based upon its record of lending, investment, and services activities. The institution has not affirmatively addressed the credit needs of the assessment area, including low- and moderate-income individuals and geographies and businesses of different sizes, in a manner consistent with its size, resources, and capabilities. Although lending levels in the assessment area reflect adequate responsiveness to assessment area credit needs, the geographic distribution of loans continues to reflect poor penetration in some areas of the assessment area. Additionally, the bank's performance under the investment test and the service test exhibits a poor level of qualified investments and community development services. Even with the presence of the majority of the bank's branches in low- and moderate-income geographies, the bank has not insufficiently addressed the lack of community development services provided by the bank.

<b>PERFORMANCE LEVELS</b>	<b>CALIFORNIA CENTER BANK</b>		
	<b>PERFORMANCE TESTS</b>		
	<b>Lending Test*</b>	<b>Investment Test</b>	<b>Service Test</b>
Outstanding			
High Satisfactory			
Low Satisfactory	X		
Needs to Improve		X	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:**

As of December 31, 1997, California Center Bank had total assets of approximately \$263 million. The bank maintains five full-service branches, four of which are in Los Angeles County; the remaining branch is in the city of Garden Grove in Orange County. A satellite facility, that only offers deposit and withdrawal capabilities, is located in downtown Los Angeles. The bank also operates proprietary ATMs at each of its offices, except for the Downtown and Santee facilities.

California Center Bank offers an array of both commercial and consumer loan products, primarily focused on meeting the credit needs of small to medium-sized businesses through the provision of loans under \$100,000. Business-purpose loans include secured and unsecured term loans, lines of credit, trade financing lines of credit, U.S. Small Business Administration (SBA) guaranteed loans, and commercial real estate construction and improvement loans. Consumer loan products include unsecured and secured lines of credit, overdraft protection, credit cards, automobile financing, and home improvement loans. Due to its business strategy, California Center Bank offers consumer products and services as an accommodation to its business customer base.

As of the December 31, 1997 Consolidated Report of Condition and Income, the majority (96.5%) of the loans of the bank were concentrated in commercial lending, with credit concentrations primarily in the service (19%) and garment (21%) industries. The remainder of the loan portfolio was comprised of consumer credit in the form of residential real estate loans (2.9%) and credit cards (.6%). There were no financial or legal constraints that would prevent the bank from meeting community credit needs consistent with its size, financial capacity, and local economic conditions.

The bank received, at its previous Community Reinvestment Act examination, a “needs to improve” performance rating. The geographic lending performance of the bank continues to be poor with the same conspicuous lending gaps noted as in the previous examination. In addition, the bank’s level of qualified investments and services has declined.

## **DESCRIPTION OF ASSESSMENT AREA:**

California Center Bank’s assessment area is comprised of contiguous portions of Los Angeles and Orange Counties totaling 961 census tracts, of which 843 (88%) are located in Los Angeles County and 118 (12%) in Orange County. The assessment area covers 51% of the Los Angeles Metropolitan Statistical Area (MSA) and 24% of the Orange County MSA. Both counties are part of the Los Angeles Consolidated MSA.

Based on data from Dun & Bradstreet, there are 71,162 small businesses<sup>1</sup> located in the bank’s assessment area, of which 28,269 (40%) are located in low-moderate census tracts. Additionally, small businesses comprise 86% of the businesses located in the assessment area. Based on industry, the assessment area is comprised primarily of manufacturing and service firms.

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<sup>1</sup> Small businesses are defined as those with gross annual revenues of less than \$1mm

As depicted in Table 1, the family median income for the assessment area is somewhat lower than the Los Angeles MSA median family income, and significantly lower than the Orange County figure. Portions of the assessment area, including the communities of South Central Los Angeles, Crenshaw, and the city of Compton, have very low incomes; consequently, these areas are three of the most economically disadvantaged in Los Angeles County. The median family income for these areas is approximately 50% of the county median income lowering the overall median income for the assessment area. The poverty rate is 20% for South Central, Crenshaw and the city of Compton, higher than the 14.7% poverty rate for the entire assessment area.

Table 1 – Median Family Income Figures<sup>2</sup>

Median Family Income	California Center Bank Assessment Area	Los Angeles County MSA	Orange County MSA
	\$34,582	\$39,035	\$51,269

Table 2, on the next page, shows the census tract distribution by these income categories. Approximately 48% of the assessment area consist of low- and moderate-income census tracts. The dispersal of census tracts by income within the assessment area closely mirrors the census tract dispersal in Los Angeles County. Orange County tends to be more affluent, although low- and moderate-income areas still comprise 40% of Orange County.

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<sup>2</sup> The median income figure of the bank’s assessment area is used to designate low-, moderate-, and upper-income census tracts.

Table 2 – Census Tract Distribution by Income Category

CENSUS TRACTS	LOW		MODERATE		MIDDLE		UPPER		TOTAL	
	#	%	#	%	#	%	#	%	#	%
Los Angeles County	157	19%	256	30%	192	23%	238	28%	843	100%
Orange County	4	3%	43	37%	64	54%	7	6%	118	100%
Assessment Area Total	161	16.8%	299	31.1%	256	26.6%	245	25.5%	961	100%

As shown in Table 3, approximately 47% of the families residing in the assessment area are low- and moderate-income. A review of the assessment area’s population revealed that a similar percentage (52%) is low- and moderate-income; therefore, the distribution of families in each income category is comparable to the distribution of the assessment area population by income level.

Table 3 – Distribution of Families by Income Category

INCOME CATEGORY	LOW		MODERATE		MIDDLE		UPPER		TOTAL	
	#	%	#	%	#	%	#	%	#	%
TOTAL FAMILIES	310,255	28.6	203,453	18.7	207,635	19.1	365,519	33.6	1,086,862	100

Although as previously noted, the income levels in South Central Los Angeles, Crenshaw and the city of Compton are low, there is a high population density, suggesting the availability of credit and community development opportunities. Over 900,000 people live in the 52-square miles comprising these areas, or approximately 17,000 people per square mile. A study conducted after the civil unrest in 1992 by Rebuild LA (RLA), a non-profit organization, found that the South Central area supported a relatively high level of economic activity and identified

the need for additional service-oriented businesses. 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. In addition, the 1997 final report issued by RLA indicates the presence of a large concentration of garment industries and food processing firms in the South Central community. These industries and businesses tend to develop along major transit corridors such as Central Avenue, Crenshaw Boulevard, Broadway, and Alameda. Specific areas have been designated under local and federal government-sponsored programs for community redevelopment in these portions of the bank's assessment area, providing special incentives for small business owners and creating partnership opportunities for financial institutions. Compton, for example, has designated several areas that include the Long Beach Avenue Corridor, the Rosecrans Corridor, and the Compton Boulevard Corridor. A number of organizations serve as intermediaries for government-sponsored programs that are used in Empowerment Zones and Community Reinvestment Area designated areas. Further, according to an official of the city of Compton, it has the third largest concentration of key industries in the area, with a strong small business sector.

Examiners interviewed members of the community to establish a contextual reference for credit needs within the assessment area of the bank. According to these community representatives, community credit needs include loans for start-up businesses, small business lines of credit and account receivable financing for short-term cash flow needs, and construction financing for commercial, industrial, multi-family housing, and retail development. Community representatives also identified the following community development opportunities available through non-profit organizations that service these areas: providing pre- and post-funding counseling to entrepreneurs; instructing at workshops; participating on boards and loan committees; and providing technical assistance in applying for grants and other proposals.

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

### **SCOPE OF EXAMINATION:**

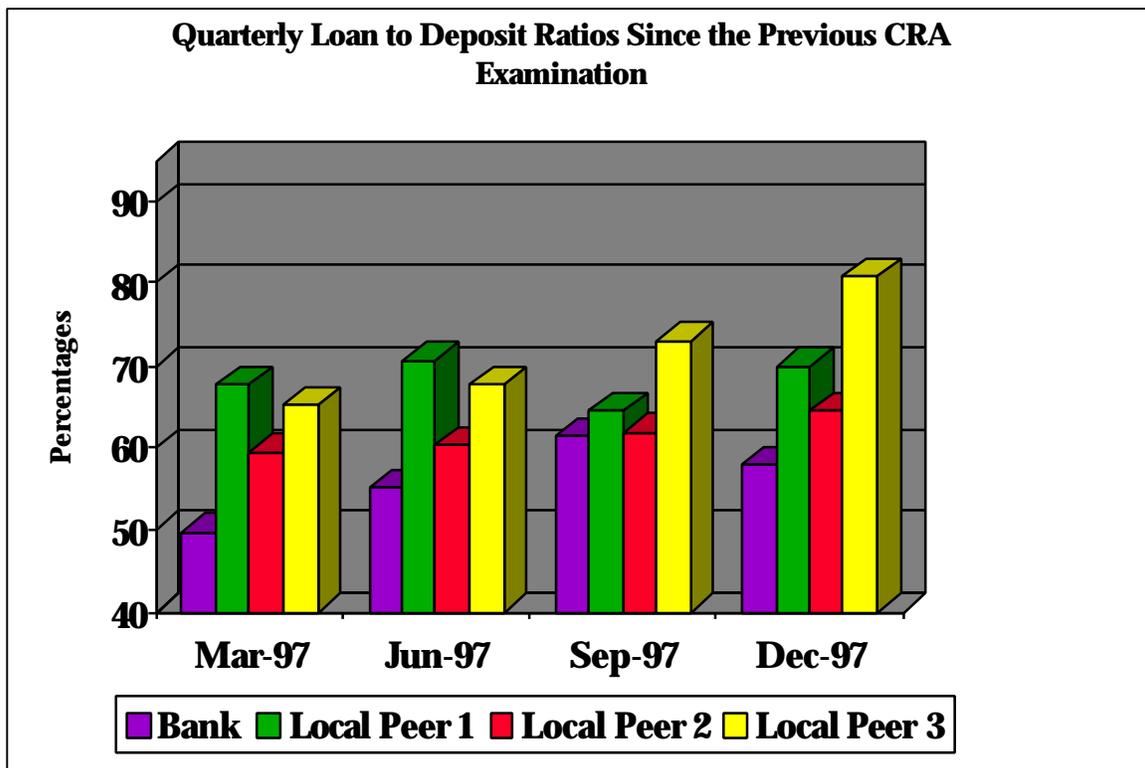
The CRA examination of California Center Bank covered the bank's activities from January 1, 1997 through December 31, 1997. Examiners reviewed the bank's small business, credit card, other secured and motor vehicle loans, as well as any community development loans bank made the bank. The bank's qualified investments and services were also reviewed. As noted above, the bank's one assessment area consists of a portion of Los Angeles County and a portion of Orange County.

### **LENDING TEST:**

California Center Bank's overall performance under the lending test is rated low satisfactory. The bank's lending reflects an adequate level of responsiveness to assessment area credit needs. According to information gathered from community representatives, community credit needs include loans for start-up businesses, small business lines of credit and account receivable

financing for short-term cash flow needs, and construction financing for commercial, industrial, multi-family housing, and retail development.

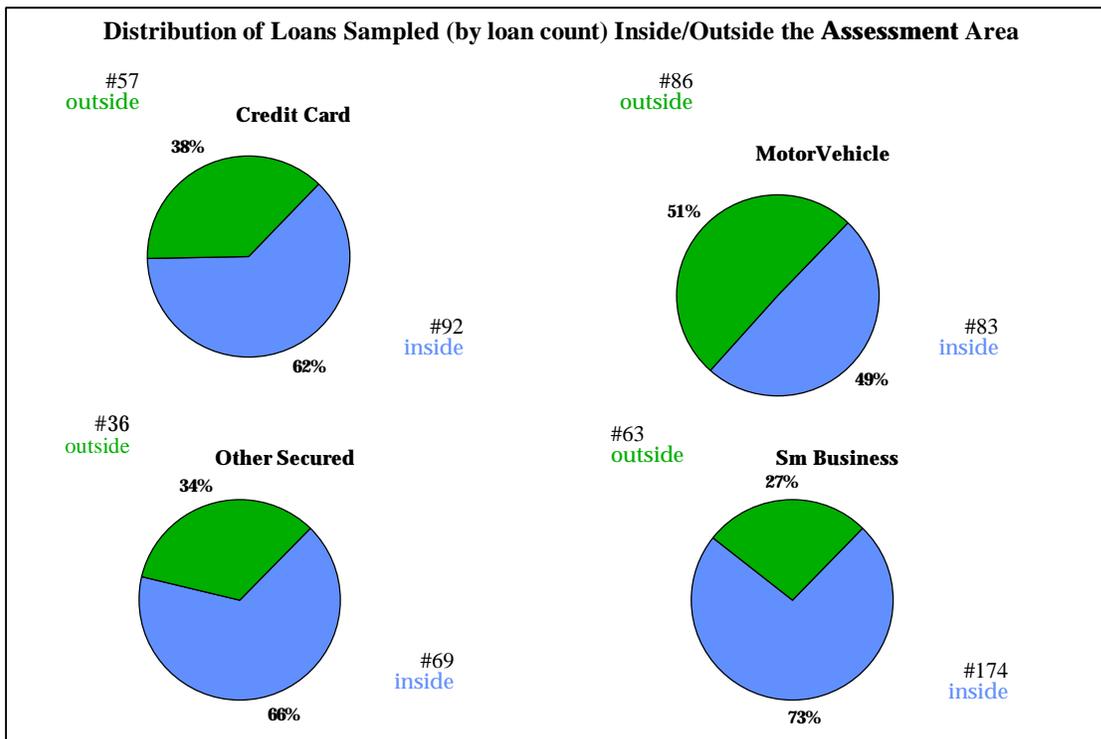
California Center Bank's average loan-to-deposit ratio of 56% indicates that the bank has the financial capacity to increase its lending levels. Although lending levels increased during 1997, up from 51% at the previous examination, levels still remain somewhat lower than those of its peers. In accordance with examination procedures, examiners calculated the average loan-to-deposit ratio for the bank using all four quarters reported since the previous examination. For this analysis, examiners selected three local banks also identified as peers by bank management for comparison purposes. Examiners primarily based the selection on the peers' business focus, portfolio composition, and branch network, with asset size being of less importance. A national peer was not used, as there were a sufficient number of local, similarly situated financial institutions. The bank's loan-to-deposit ratio for each of the four quarters, compared to its peers is illustrated in the graph below.

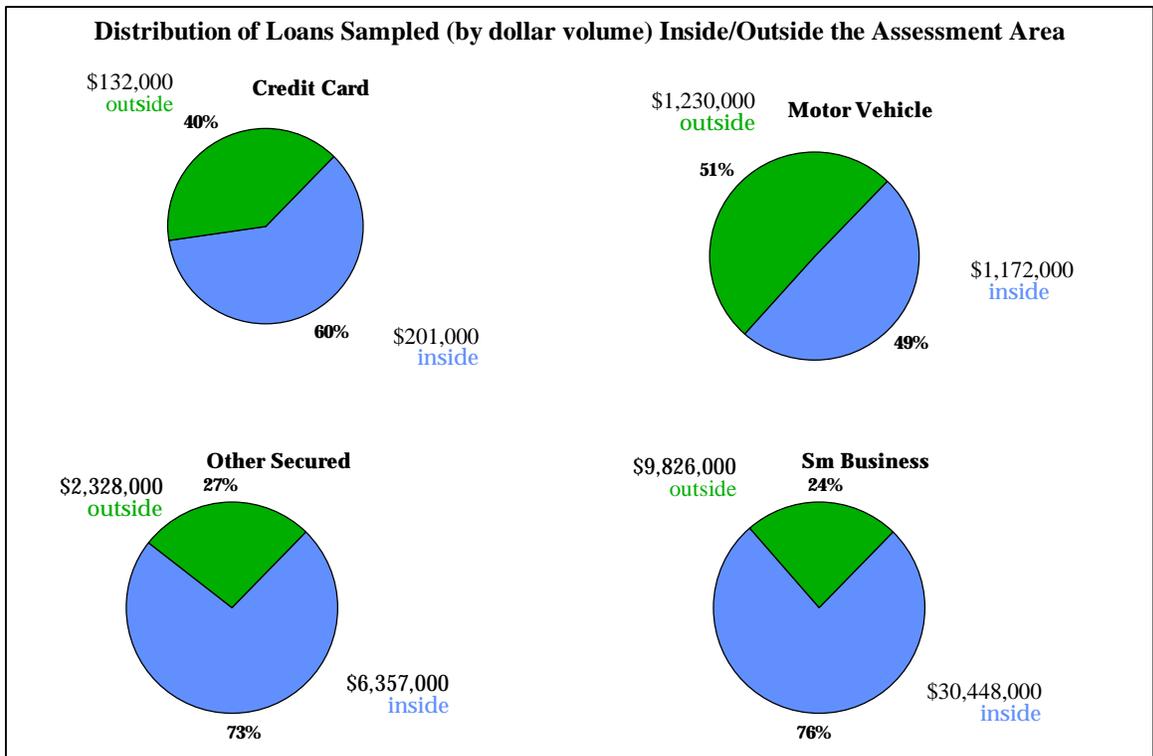


## Assessment Area Concentration

Lending patterns demonstrate that a majority of the bank's loans, both in number and in dollar amount was extended within the assessment area. Given the business focus of the bank, examiners gave business loans more weight in the analysis. The bank's business focus is demonstrated by the composition of the total loan portfolio: as of December 31, 1997, commercial loans represented over 96%, with the balance in consumer credit cards (.6%) and residential real estate lending (2.9%). During 1997, the bank extended 660 loans (small business, other secured, motor vehicle, and credit card) of which 418 (63%) totaling \$38.2 million were within its assessment area. Based on dollar volume, the \$38.2 million extended with the bank's assessment area represented 74% of the loans extended by the bank in 1997.

Although the bank extended the majority of its lending within the assessment area, when compared to the previous examination, the overall lending level, based on the number of loans, has decreased from 67% to 63%. The level of lending, based on dollar volume, increased, however, from the 68% at the previous examination to 74%. The following graphs illustrate the concentration of all loans originated during the sample period, both in number and in dollar amount, inside and outside of the bank's assessment area. Except for motor vehicle loans, a majority of the loans was extended within the assessment area.



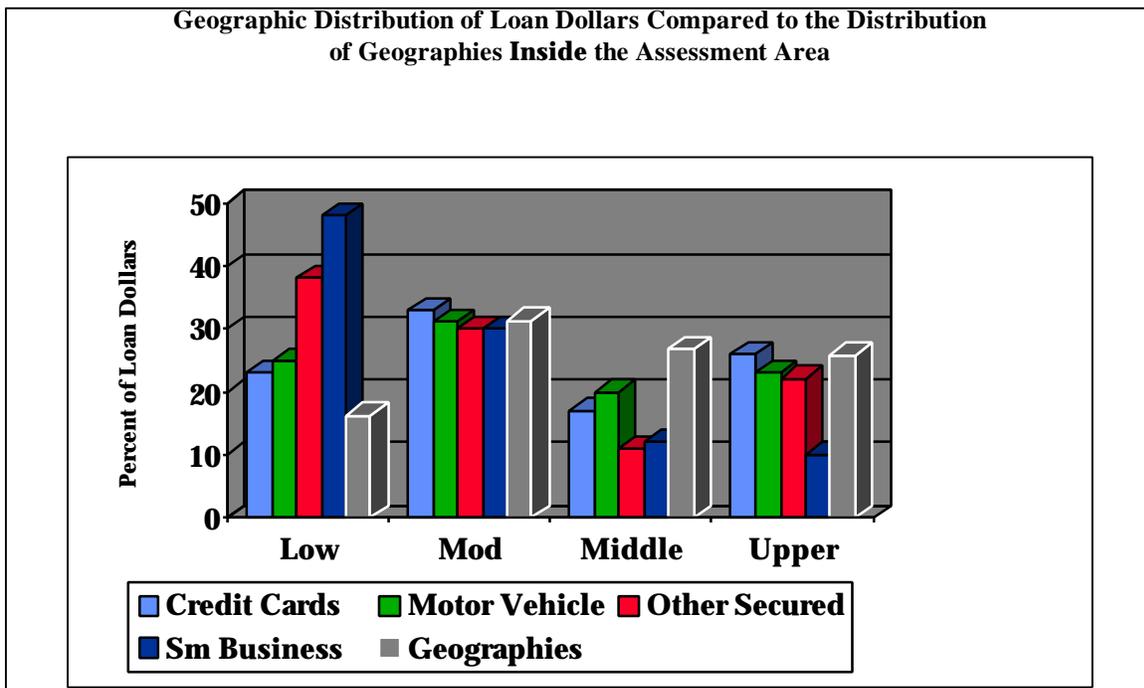
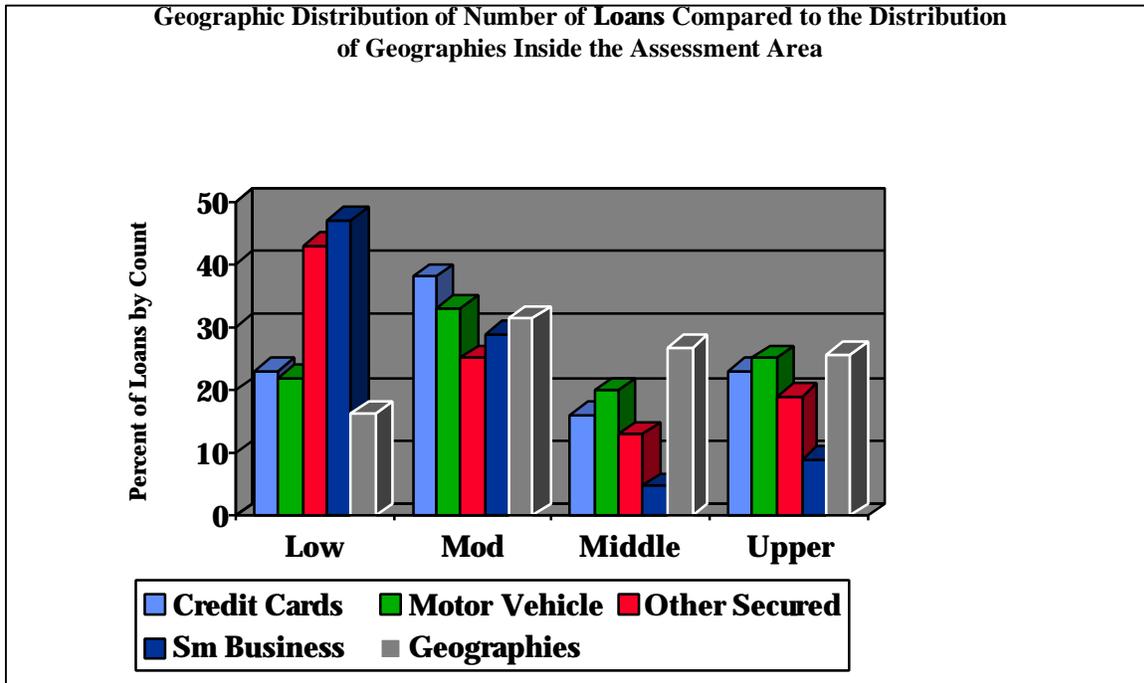


**Lending Distribution by Geography**

A review of the bank’s overall lending pattern indicates that it is widely disbursed. This appears to be the result of commute patterns, existing customers moving out of the bank’s assessment area, and consumer lending that is primarily accommodation loans to business customers. As detailed below, the bank’s overall geographic distribution within the assessment area, however, remains poor due to the conspicuous lending gaps noted in South Central Los Angeles, Crenshaw, and the city of Compton. Deficiencies in the bank’s geographic distribution were also noted in the three previous CRA performance evaluations conducted from 1995 through 1997. The areas within the assessment area with the conspicuous lending gaps are of particular concern because these are historically underserved and are in relatively close proximity to several of the bank’s offices.

As depicted in the graphs below, the majority (67% based on number of loans and 77% based on dollar volume) of the lending activity within the assessment area originated in low- and moderate-income geographies, demonstrating an adequate penetration in low- and moderate-income census tracts and an improvement from the previous examination. The bank also demonstrated a reasonable distribution of lending within the middle- and upper-income census tracts. Further review noted, however, that, while 48% of the bank’s assessment area is comprised of low- and moderate-income geographies, the bank’s loan activity occurred in only 21% of these census tracts. Penetration levels in middle- and upper-income tracts were more reflective of the assessment area composition. The bank penetrated 16% of the middle-income census tracts, which represent 27% of the assessment area, and 17% of the upper-income census tracts, which represent 25% of the assessment area. Although the bank is not required to lend in

every census tract, this lending pattern, coupled with the conspicuous lending gaps discussed below, suggests that the bank is not meeting the credit needs of its assessment area in regards to the geographic distribution of its lending.



As seen from the map below, the bank's small business lending (its primary credit product) is widely distributed throughout the assessment area; however, lending is limited or nonexistent in South Central Los Angeles, Crenshaw and the city of Compton. According to the community contacts, these areas are three of the most economically disadvantaged areas of Los Angeles County; nevertheless, direct lending opportunities for both micro- and small businesses exist, as noted above. Moreover, data on the number of small business establishments<sup>3</sup> located in the areas where conspicuous gaps were noted also demonstrate that there are lending opportunities. While some tracts have limited opportunities (less than 30 small business establishments per census tract), there are groups of tracts containing from 30 to 100 small businesses where no small business loan were extended (see map), including areas contiguous to the bank's branches. Additionally, examiners obtained data on the number of financial institutions<sup>4</sup> located in this portion of the bank's assessment area that could be deemed to be competitors of the bank in regards to small business loans. Only 25 banking offices representing six different banks are located in these areas, suggesting that the bank, with its branch locations in or near these underserved areas, does not face much competition for its small business loan product. Consequently, in the conspicuous gaps in the bank's small business lending, the small business credit opportunities available in these areas, the proximity of the bank's branches and the limited competition supports the conclusion that the geographic distribution of the bank's lending is poor.

### **Lending Distribution by Borrower Income or Business Revenue**

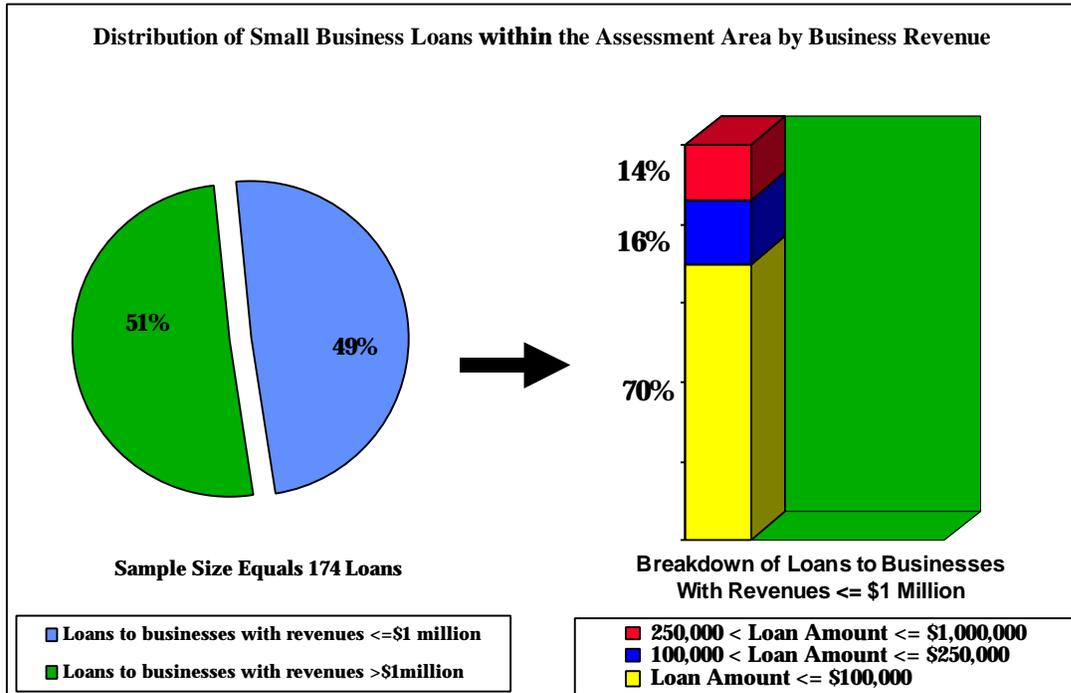
Given the business focus of the bank, the distribution of businesses and retail borrowers reflects a good penetration among the revenue sizes and different income levels. At the bank's request, examiners conducted an analysis based on borrower income and business revenue of the lending activity for credit cards, motor vehicle, and small business loans. Because the bank's "other secured loans" are cash-secured, revenue information for these loans was not collected; therefore, these loans were excluded from the analysis.

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<sup>3</sup> Source data from Dun & Bradstreet

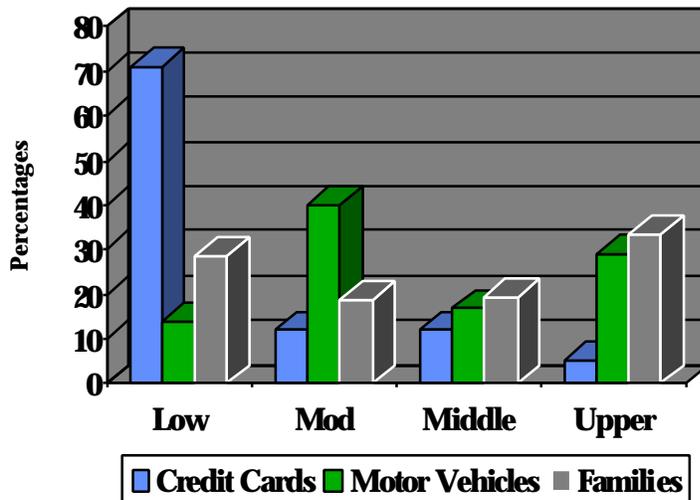
<sup>4</sup> Source data from [www.fdic.gov](http://www.fdic.gov)

Of those business loans extended in the review period to small businesses, a clear majority was in amounts of \$100,000 or less. This is particularly relevant given the small dollar credit needs cited by community contacts. The following graph depicts this distribution:

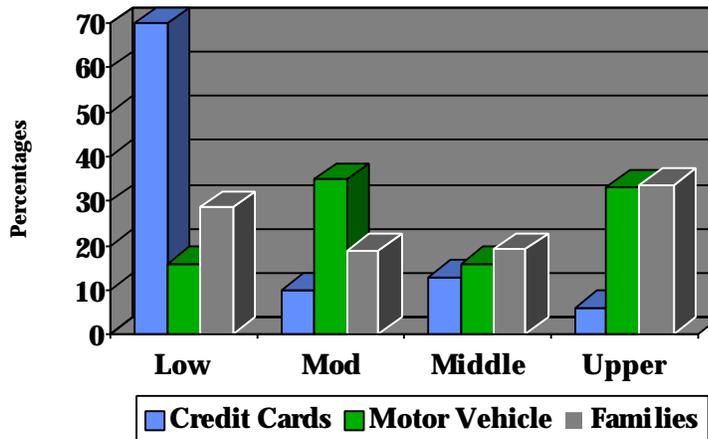


In regards to credit cards and motor vehicle loans, the bank adequately addressed the credit needs of its assessment area by meeting those borrowers of all income levels. As depicted in the following graphs, the bank extended the majority (based on both number of loans and dollar volume) of these products to low- and moderate-income persons.

**Distribution of Number of Loans to Borrowers of Different Incomes Compared to the Distribution of Families Inside the Assessment Area**



**Distribution of Loan Dollars to Borrowers of Different Incomes Compared to the Distribution of Families Inside the Assessment Area**



## **Community Development Lending**

Since the previous examination, the bank has made a low level of community development loans. The bank's participation in community development activities was limited to 11 projects with California Community Reinvestment Corporation, totaling approximately \$33,000. While these projects provided 629 housing units, the level of community development activity for California Center Bank is far below that of its local peers. Although approximately double in asset size, the most closely related local peer generated \$7.6 million in community development lending during a similar period.

## **Innovative or Flexible Lending Practices**

California Center Bank makes limited use of innovative and flexible lending practices in serving assessment area credit needs. In July 1997, the bank introduced its *Easy Qualifier*, a low-documentation, no-fee small business loan program via a direct mail campaign, and subsequently generated eight loans amounting to \$260,000. Under this program, an applicant may submit a tax return in lieu of a financial statement. Since many small businesses do not maintain financial statements, the flexible documentation requirement makes this an attractive loan product. The underwriting standards for the *Easy Qualifier* are also somewhat relaxed in that unlike the bank's traditional commercial loan product, a bankruptcy does not result in an automatic declination. The direct mail solicitation was sent to approximately 1,500 small businesses located within nine zip codes (90001, 90003, 90007, 90008, 90011, 90018, 90037, 90062, and 90043). These zip codes represent the South Central and Crenshaw neighborhoods of Los Angeles and the city of Compton. Subsequent to the mailing, the bank also used the list of businesses to conduct follow-up calling for approximately two months. The 2% rate of return garnered by the bank is typically for a direct solicitation marketing strategy. Although the campaign officially ended in October 1997, the bank continues to cross-sell this product to its existing customer base.

## **INVESTMENT TEST:**

California Center Bank needs to improve its performance with respect to the investment test based on its level of investment activity and its impact on the current community development activities in its assessment area. The two qualified investments made by the bank were a \$5,000 grant and a one-year \$50,000 non-interest bearing deposit to Comunidades Federal Credit Union, a community development credit union, targeting low- and moderate-income individuals which opened for business in November 1997. These funds will assist the credit union in building their asset base.

The bank's \$55,000 qualified investments and grants are negligible, representing less than .1% of its total investment portfolio. Given the bank's size, resources, and community development needs and investment opportunities in its assessment area, this reflects a very poor level of qualified community development investments and grants. Community contacts made in conjunction with the examination identified a myriad of community development investment opportunities which include grants, equity investments, commitments to loan pools, and

donations. The bank does not use innovative or complex investments to support community development initiatives, and does not appear to make any meaningful attempts to find out from community organizations, governmental development agencies and like about available community development investment and grant opportunities. As such, California Center Bank exhibits a poor record of serving the community development needs of its assessment area through investments or grants.

### **SERVICE TEST:**

Based on its provision of both retail banking and community development services, the bank needs to improve its overall performance under the service test. Despite the presence of the majority of the bank's branches in low- and moderate-income census tracts, the bank's failure to demonstrate community involvement through qualified community development services resulted in the poor performance rating.

### **Retail Banking Services**

California Center Bank's delivery systems are reasonably accessible to all portions of the assessment area, including low- and moderate-income areas. The bank has five full-service offices (Olympic, Western, Downtown, Gardena, and Garden Grove) and one satellite office (Santee) with its corporate headquarters and SBA department located at the Olympic location. With the exception of the Gardena office, the branches are all located in low- or moderate-income census tracts. No branches were closed during the period under review.

Lobby hours for all offices are 9:00 AM to 4:00 PM from Monday through Thursday. With the exception of the Downtown and Santee offices, banking hours on Fridays are extended to 6:00 PM. Saturday hours are also provided from 9:00 AM to 1:00 PM, except for the Santee office, which is located in the garment district and closed on the weekend due to inactivity. The hours of operation for all the bank's offices are reasonable and conveniently scheduled to allow convenient access to banking services. The locations of the bank's branches, combined with their hours of operation, demonstrate that services do not vary in a way that inconveniences portions of the assessment area.

ATM services are also offered at all offices except the Downtown and Santee facilities. The bank's ATM network includes Instant Teller, Plus, Amex, Diners Club, Discover, Visa, and MasterCard. Customers incur a fee of \$1.00 when using nonproprietary ATMs, which is common for the market. The bank also offers *Fonteller*, an automated telephone inquiry system. Currently, the system only enables accountholders to make inquiries regarding their checking and savings accounts. Information is provided in both English and Korean.

### **Community Development Services**

Bank personnel provide a very low level of qualified community development services. Given its size, the bank has the capacity to offer and participate in additional community development organizations and programs. During the review period, examiners noted only one qualified community development service. The bank provides a loan officer to serve as a member of the loan committee for the Direct County Micro Business Loan Program, administered by the Los

Angeles County Community Development Commission. The loan committee is comprised of five members and meets quarterly to review small business loan proposals.

Interviews with community contacts indicated the need for a higher level of participation and offered numerous examples of opportunities for bank participation in the provision of community development services. These included: providing pre- and post-funding counseling to entrepreneurs; instructing at workshops; participating on boards and loan committees; and providing technical assistance in applying for grants and other proposals. Moreover, the bank did not appear to undertake any actions to seek out information on available community development service opportunities in its assessment area.

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

The bank is in compliance with the substantive provisions of the anti-discrimination laws which include the Fair Housing Act and the Equal Credit Opportunity Act (ECOA). Violations of the technical provisions of the ECOA were noted. These violations were isolated in nature and not indicative of a pattern or practice; therefore, the findings did not negatively affect the bank's CRA rating.