

# **PUBLIC DISCLOSURE**

**July 03, 2001**

## **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**Western State Bank  
23234**

**1801 East Huntington Drive  
Duarte, California 91010**

**Federal Deposit Insurance Corporation  
25 Ecker Street, Suite 2300  
San Francisco, CA 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 **Western State Bank** prepared by the **Federal Deposit Insurance Corporation**, the institution's supervisory agency, as of **July 03, 2001**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

## INSTITUTION RATING

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

Western State Bank demonstrates an adequate responsiveness to the credit needs of its assessment areas. The following seven factors support this rating.

- A majority of the bank's small business loan originations in 2000 and year-to-date June 30, 2001 were made within its assessment areas.
- Overall, when compared to assessment area demographics, the geographic distribution of small business loan originations in the Los Angeles/San Bernardino assessment area reflects a reasonable dispersion among different income levels.
- The bank's lending to businesses of different sizes is considered reasonable. Although the bank originated only 46.2 percent by number and 47.1 percent by dollar volume of small business loans to businesses with gross annual revenues of \$1 million or less, these percentages are considered reasonable given the bank's size, resources, and local lending competition.
- A further analysis by loan size for all small businesses in the Los Angeles/San Bernardino assessment area shows that the bank originated the majority of its loans, by number, in loan amounts of \$250,000 or less.
- The bank's average loan-to-deposit (LTD) ratio, based on 17 quarters preceding this examination, is approximately 74 percent. This ratio reflects a reasonable responsiveness to the credit needs of its assessment areas.
- The bank has not received any CRA-related complaints since the previous examination.
- No substantive violations of the anti-discriminatory laws and regulations were identified at this examination.

## DESCRIPTION OF INSTITUTION

Western State Bank (WSB) is an independent community bank located in Duarte, Los Angeles County, California. The bank first opened for business in 1980. WSB operates from two locations with its main office in the foothills of the San Gabriel Valley and its only branch facility in South San Francisco, California. WSB provides automated teller machine (ATM) access at both branch offices. The bank closed its Mid-Wilshire branch on November 30, 1999.

WSB offers a variety of deposit and loan products to its customers. The majority of the bank's loan portfolio is comprised of commercial and industrial loans (48 percent) and nonfarm nonresidential real estate properties (33 percent) according to the 3-31-01 Consolidated Report of Condition and Income Schedule C - Loans and Lease Financing Receivables. WSB's main focus is on serving the needs of small and medium-sized businesses within its assessment areas. The bank provides short-term secured and unsecured commercial and business loans. Additionally, WSB makes commercial loans on a revolving and/or term basis to finance accounts receivable, working capital, machinery and equipment, import/export trade transactions, and professional practices. The bank, while not a long-term mortgage lender, does provide secured real estate loans for residential and commercial construction, commercial property purchase and refinance, and land loans. WSB, in cooperation with the U.S. Small Business Administration, also offers small businesses access to capital not available through conventional means. Through the SBA 7(a) program, the bank offers term loans to growing businesses that meet basic eligibility standards for a variety of needs from working capital to the purchase of industrial real estate. The bank also offers a variety of consumer loan products including auto loans, personal loans, home improvement and equity loans, and purchase and refinance loans, but none are considered a major part of the bank's strategy or loan portfolio.

The 3-31-01 Consolidated Report of Condition and Income (known as the CALL report) reported total assets of \$80,892,000 with net loans of \$55,566,000 representing approximately 69 percent of the bank's total assets. WSB has maintained a 74 percent average loan-to-deposit ratio since the prior CRA evaluation dated 3-17-97. Below is a summary of the bank's loan portfolio as of 3-31-01.

***Table 1 – Summary of WSB's Loan Portfolio***

| <b><i>Type of Loan</i></b> | <b><i>Dollar Amount</i></b> | <b><i>Percentage</i></b> |
|----------------------------|-----------------------------|--------------------------|
| RE Construction            | \$ 3,712                    | 6.7                      |
| Secured by 1-4 Family RE   | 3,530                       | 6.4                      |
| Secured by Multifamily     | 2,787                       | 5.0                      |
| Nonfarm/Nonresidential RE  | 18,719                      | 33.7                     |
| Commercial/Industrial      | 27,287                      | 49.1                     |
| Loans to Individuals       | 459                         | 0.8                      |
| Other Loans                | 124                         | 0.2                      |
| Less Unearned Income       | <93>                        | <0.2>                    |
| Less Loan Loss Reserves    | <959>                       | <1.7>                    |
| Net Loans                  | 55,566                      | 100.0                    |

No legal or financial impediments exist that would prohibit the bank from meeting the credit needs of its community.

## DESCRIPTION OF THE LOS ANGELES/SAN BERNARDINO ASSESSMENT AREA

Western State Bank (WSB) designated a total of 348 census tracts within the Los Angeles-Long Beach Metropolitan Statistical Area (MSA) 4480 and the Riverside-San Bernardino MSA 6780. WSB’s assessment area includes a total of 40 cities of which 35 are in the San Gabriel area of MSA 4480 and the remaining 5 are in MSA 6780. According to the 1990 census, the area population consists of 2,185,984 people and the median family income was \$44,189. The distribution of census tracts by income level is shown in table 2 below.

*Table 2 Census Tract Income Levels*

| <i>Census Tract<br/>Income Level</i> | <i>Number of<br/>Census Tracts</i> | <i>Percent of<br/>Census Tracts</i> |
|--------------------------------------|------------------------------------|-------------------------------------|
| Low-Income                           | 3                                  | 0.9                                 |
| Moderate-Income                      | 60                                 | 17.2                                |
| Middle-Income                        | 163                                | 46.8                                |
| Upper-Income                         | 121                                | 34.8                                |
| No Income                            | 1                                  | 0.3                                 |
| <b>Total</b>                         | <b>348</b>                         | <b>100.0</b>                        |

*Source: 1990 U.S. Census Data*

Below are more detailed and updated information about the Los Angeles-Long Beach MSA 4480 and the Riverside-San Bernardino MSA 6780.

### **Los Angeles-Long Beach MSA 4480**

#### Demographic Information

MSA 4480 contains 1,652 census tracts (166 low-, 377 moderate-, 544 middle-, and 565 upper-income). Low- and moderate-income (LMI) census tracts account for approximately 33 percent of the total number of tracts within the MSA. The total population of the MSA from the 1990 U.S. Census is 8,863,164. According to the 2000 census, the population of MSA 4480 is 9,519,338, an increase of over 7 percent since the 1990 census. The 2000 adjusted median family income is \$52,100, based on estimates from the Department of Housing and Urban Development (HUD). This figure is used to determine the income level for each geography. Los Angeles County is wholly contained in MSA 4480 and includes 88 cities. In addition, approximately 28 percent of all California residents live in Los Angeles County.

## Economic Information

The Los Angeles economy has slowed in recent months, but many indicators show that it retains much resilience. The number of jobs remains slightly below the January 2000 peak. The unemployment rate remains low at 5 percent as of first quarter 2001. The area has not escaped layoffs at dot coms and the entertainment industry, but overall, the economy remains stable. The energy crisis poses some risk for the area's economy as the potential for rolling blackouts and rising rates is ever present.

According to the California State Employment Department (EDD) as of December 2000, the civilian labor force of the MSA totals approximately 4.8 million. Los Angeles County, with approximately 92,600 employees, is the largest employer in the region. Entertainment, international trade, high-tech manufacturing, and construction activity support the area's economy. Top employers include aerospace, health, entertainment, and retail service companies. The employment base is considered diverse. The following table reflects the composition of the area's economy.

| <i>Table 3 – Industry by Total Employment and Revenue Size</i> |                                   |                                 |
|--|-----------------------------------|---------------------------------|
| <i>Industry</i>  | <i>% of Total Employment 2000</i> | <i>Revenues 1998 (billions)</i> |
| <i>Services</i>  | <i>33.1</i>                       | <i>\$36,515</i>                 |
| <i>Manufacturing</i>   | <i>15.4</i>                       | <i>\$42,935</i>                 |
| <i>Retail</i>  | <i>15.5</i>                       | <i>\$21,323</i>                 |
| <i>Government</i>  | <i>14.3</i>                       | <i>\$46,041</i>                 |
| <i>All Other</i>   | <i>21.7</i>                       | <i>\$236,886</i>                |

*Source: Bureau of Labor Statistics, 2000; Bureau of Economic Analysis 1998*

MSA 4480 has over 290,000 licensed small businesses. The percentage of businesses located in low- and moderate-income census tracts combined (27 percent) is slightly lower than the number of businesses located in middle- and upper-income census tracts (34 percent and 39 percent, respectively). However, commercial lending opportunities appear to be available in all geographies of the Los Angeles metropolitan area, as reflected in the table below.

*Table 4 – Small Businesses by Geography*

| <i>Census Tract Type</i> | <i>Number of Small Businesses</i> | <i>Percent of Total</i> |
|--------------------------|-----------------------------------|-------------------------|
| Low                      | 24,819                            | 8.5                     |
| Moderate                 | 54,110                            | 18.6                    |
| Middle                   | 97,927                            | 33.7                    |
| Upper                    | 113,007                           | 38.9                    |
| NA                       | 914                               | 0.3                     |
| <b>Total</b>             | <b>290,777</b>                    | <b>100.0</b>            |

Source: Dunn and Bradstreet, 2000

A number of positive factors have contributed to Los Angeles’s stable growth over the past several years. These factors will likely remain important drivers for the economy, although in the near term their strength will diminish as the national economy slows. Thus, the near-term outlook for MSA 4480 is for significantly weaker growth, although it is likely to avoid recession.

### **Riverside-San Bernardino MSA 6780**

#### Demographic Data

MSA 6780 contains 298 census tracts (15 low-, 84 moderate-, 133 middle-, and 66 upper-income). Low- and moderate-income (LMI) census tracts account for approximately 33 percent of the total number of tracts within the MSA. According to the 2000 census, the population of MSA 6780 is 3,254,821, an increase of over 26 percent since the 1990 census. The 2000 adjusted median family income is \$47,400, based on estimates from the Department of Housing and Urban Development (HUD). This figure is used to determine the income level for each geography. Riverside and San Bernardino Counties are wholly contained in MSA 6780.

#### Economic Information

While San Bernardino – Riverside’s economy is beginning to slow, MSA 6780 remains one of the fastest growing metropolitan areas in the nation. In 2000, economic growth remained high at 7.6 percent. The remarkable fact is that no single industry is driving the growth. Rather it is a diverse set of durable goods industries including construction materials, industrial equipment, auto and truck parts, electronics, and furniture. The diversity of these industries reduces the risk of a downturn in the area’s economy, should a segment of the U.S. economy falter in the near future. The area’s unemployment rate continues to fall and hit a record low of 5 percent in 2000. The labor force exceeds 1.5 million. Income growth is rising, although at a slower rate than the nearby metropolitan areas of Los Angeles and Orange, and personal bankruptcy filings are falling rapidly.

The San Bernardino – Riverside area has created jobs at a faster rate than any other California metropolitan area over the past five years. As the low-cost place to do business in Southern California, manufacturers, distributors, customer-service centers, and construction contractors have flocked to this area. Well situated on Interstate highways (I-10 and I-15) and railways that

service the Southwest and Midwest, the area is quickly becoming, a transportation and distribution hub, and increasingly a manufacturing center, as well.

Manufacturing is a critical driver of MSA 6780’s economy, creating jobs at an annualized rate of 6 percent over the past five years. This compares favorably to the 1.4 percent in the rest of the state and the near zero net growth in manufacturing jobs outside of California. However, the San Bernardino – Riverside metropolitan area is not attracting high tech or high-paying manufacturing jobs. This is a fundamental difference from the rest of the state. Thus, the area’s manufacturing wages, while rising, are losing ground to the national average. This is one factor that keeps household income well below average.

Top employers include retail, defense, health, and education. The following table reflects the composition of the area’s economy.

| <i>Table 5 - Industry by Total Employment and Revenue Size</i> |                                   |                                 |
|--|-----------------------------------|---------------------------------|
| <i>Industry</i>  | <i>% of Total Employment 2000</i> | <i>Revenues 1998 (billions)</i> |
| <i>Services</i>  | <i>26.9</i>                       | <i>\$24,399</i>                 |
| <i>Retail</i>  | <i>20.0</i>                       | <i>\$18,142</i>                 |
| <i>Government</i>  | <i>19.3</i>                       | <i>\$40,791</i>                 |
| <i>Manufacturing</i>   | <i>12.5</i>                       | <i>\$36,598</i>                 |
| <i>All Other</i>   | <i>21.3</i>                       | <i>N/A</i>                      |

*Source: Bureau of Labor Statistics, 2000; Bureau of Economic Analysis, 1998*

The Riverside-San Bernardino metropolitan area has over 75,000 licensed small businesses. Approximately 26 percent of the businesses are located in low- and moderate-income geographies, as shown in the table below. Commercial lending opportunities appear to be available in all geographies of the Riverside-San Bernardino metropolitan area, as reflected in the table below.

**Table 6 – Small Businesses by Geography**

| <i>Census Tract Type</i> | <i>Number of Small Businesses</i> | <i>% of Total</i> |
|--------------------------|-----------------------------------|-------------------|
| Low-Income               | 1,515                             | 2.0               |
| Moderate-Income          | 17,684                            | 23.5              |
| Middle-Income            | 36,491                            | 48.6              |
| Upper-Income             | 19,341                            | 25.8              |
| N/A                      | 60                                | 0.1               |
| <b>Totals</b>            | <b>75,091</b>                     | <b>100.0</b>      |

*Source: Dunn and Bradstreet, 2000*

The outlook for MSA 6780 remains positive but the rapid pace of growth over the past five years is not sustainable. The area has little exposure to high-tech industries or dot-com startups and so has little immediate impact from a falling stock market, a slowdown in venture capital investment, or uncertain investment in computers and Internet systems. Retail spending may also be more stable since the stock market's wealth effect is limited in the area. As a result, the economy will be more stable than elsewhere in California's major metropolitan areas. The area's growing manufacturing and distribution industries supply the nation with a broad array of consumer and industrial goods. Moreover, a significant amount of goods, imported through the Los Angeles and Long Beach ports, passes through distributors based in the MSA. Therefore, the San Bernardino – Riverside metro area will only begin to feel the negative impact of an economic downturn, if the national economy remains soft over a considerable period and consumer confidence plummets.

## **DESCRIPTION OF THE SAN MATEO ASSESSMENT AREA**

WSB designated a total of 85 census tracts within the San Francisco MSA 7360. This assessment area includes a total of 8 cities within San Mateo County including Burlingame, Daly City, Hillsborough, Millbrae, Pacifica, San Bruno, San Mateo, and South San Francisco. According to the 1990 census, the area population consists of 378,077 people and the median family income was \$49,282. The distribution of census tracts by income level is shown in table 7 below.

*Table 7 Census Tract Income Levels*

| <i>Census Tract<br/>Income Level</i> | <i>Number of<br/>Census Tracts</i> | <i>Percent of<br/>Census Tracts</i> |
|--------------------------------------|------------------------------------|-------------------------------------|
| Low-Income                           | 0                                  | 0.0                                 |
| Moderate-Income                      | 10                                 | 11.8                                |
| Middle-Income                        | 56                                 | 65.9                                |
| Upper-Income                         | 17                                 | 20.0                                |
| No Income                            | 2                                  | 2.3                                 |
| <b>Total</b>                         | <b>85</b>                          | <b>100.0</b>                        |

*Source: 1990 U.S. Census Data*

Below is more detailed and updated information about San Francisco MSA 7360 and San Mateo County.

### **San Francisco MSA 7360**

#### Demographic Information

MSA 7360 contains 361 census tracts (23 low-, 64 moderate-, 146 middle-, 115 upper-, and 13 no income). Low- and moderate-income (LMI) census tracts account for approximately 24 percent of the total number of tracts within the MSA. The total population of the MSA from the 1990 U.S. Census is 1,603,678. According to the 2000 census, the population of MSA 7360 is 1,731,183, an increase of almost 8 percent since the 1990 census. The 2000 adjusted median family income is \$74,900, based on estimates from the Department of Housing and Urban Development (HUD). This figure is used to determine the income level for each geography. San Mateo County is wholly contained in MSA 7360 and includes approximately 25 cities.

#### Economic Information

The San Francisco MSA economy is slowing. Employment leveled off in the early months of 2001 after surging at a surprising pace through the end of 2000. Yet despite the closing of many dot com firms and some loss in financial services, employment has not yet declined. The unemployment rate remains very low, under 3 percent. The current unemployment rate in San Mateo county remains well below that of the MSA at 1.6 percent as of first quarter 2001.

Leading industries by number of employees in the area continue to largely be computer and data processing services followed by air transportation, management and public relations, miscellaneous business services, civilian federal government, and hotels. Top employers include airlines, higher education, high-tech manufacturing, and financial services. The following table reflects the composition of the area's economy.

| <i>Table 8 - Industry by Total Employment and Revenue Size</i> |                                   |                                 |
|--|-----------------------------------|---------------------------------|
| <i>Industry</i>  | <i>% of Total Employment 2000</i> | <i>Revenues 1998 (billions)</i> |
| <i>Services</i>  | <i>39.1</i>                       | <i>\$44,289</i>                 |
| <i>Retail</i>  | <i>16.4</i>                       | <i>\$25,079</i>                 |
| <i>Government</i>  | <i>12.0</i>                       | <i>\$52,197</i>                 |
| <i>Finance, Ins., Real Estate</i>                              | <i>9.8</i>                        | <i>\$66,659</i>                 |
| <i>All Other</i>   | <i>22.7</i>                       | <i>\$226,943</i>                |

*Source: Bureau of Labor Statistics, 2000; Bureau of Economic Analysis, 1998*

### **Community Contacts**

Examiners reviewed two community contacts made in the Los Angeles area within the last 18-month period. Information obtained through both contacts indicates that the local community credit needs continue to be affordable housing and small business financing. Land for future development is scarce within the San Gabriel Valley limiting opportunities for developers as well as financial institutions. One of the contacts indicated local financial institutions have many community development opportunities by providing the local business community access to more credit and financial services.

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

### **LENDING PERFORMANCE**

The evaluation of Western State Bank's (WSB) lending performance is based upon the review of small business loans originated between January 1, 2000 and June 30, 2001. WSB originated a total of 94 small business loans, including Small Business Administration (SBA) loans, over the 18-month time period. Of this amount, 65 small business loans were originated within the bank's assessment areas and were considered in this evaluation. In addition, the bank originated 4 commercial loans totaling \$5,461,000 to small businesses in excess of the \$1 million small business loan limit by loan size. Three of the four loans were extended within the bank's Los Angeles/San Bernardino assessment area and are considered in this analysis.

WSB maintains two separate assessment areas within the state of California, Los Angeles/San Bernardino and San Mateo. The lending in the assessment area criterion includes lending in both assessment areas. The remaining factors discussed focus solely on loans originated in the bank's Los Angeles/San Bernardino assessment area as it represents the bank's greatest lending volume. More weight is placed on the lending to businesses of different sizes and geographic distribution factors when arriving at the bank's overall rating. The result of the bank's lending performance is detailed below.

**LENDING IN THE ASSESSMENT AREA**

WSB's loan penetration within its assessment areas is considered reasonable. The bank originated a majority of small business loans within its assessment areas by both number and dollar amount of loans. The table below shows the bank's overall loan distribution.

| <i>Table 9 - Distribution of Loans Inside and Outside of the Assessment Area</i> |                        |          |                |          |              |                                |          |                |          |              |
|--|------------------------|----------|----------------|----------|--------------|--------------------------------|----------|----------------|----------|--------------|
| <i>Loan Category or Type</i>   | <i>Number of Loans</i> |          |                |          |              | <i>Dollars in Loans (000s)</i> |          |                |          |              |
|  | <i>Inside</i>          |          | <i>Outside</i> |          | <i>Total</i> | <i>Inside</i>                  |          | <i>Outside</i> |          | <i>Total</i> |
|  | <i>#</i>               | <i>%</i> | <i>#</i>       | <i>%</i> |              | <i>\$</i>                      | <i>%</i> | <i>\$</i>      | <i>%</i> |              |
| <i>Small Business Loans</i>  | 68                     | 69.4     | 30             | 30.6     | 98           | \$20,399                       | 71.6     | \$8,078        | 28.4     | \$28,477     |

*Source: Bank records*

As the table above shows, overall approximately 69 percent by number and 71.6 percent by dollar volume of loans were made within the bank's assessment areas. These percentages show the bank's commitment to extending small business loans within its assessment areas considering its asset size, lending capacity and local competition.

**LOAN-TO-DEPOSIT RATIO**

The bank's average loan-to-deposit ratio shows a reasonable responsiveness to assessment area credit needs. Based on 17 quarters beginning with 3-31-97, the bank's average loan-to-deposit ratio is approximately 74 percent. The ratio has ranged from a low of 65.2 percent on 3-31-97 to a high of 80.5 percent on 9-30-00. The average loan-to-deposit ratio is calculated on a net basis, excluding both unearned income and loan loss reserves. Given the bank's asset size, financial condition, economic factors, and local competition, the average loan-to-deposit ratio is considered reasonable.

## **LENDING IN THE LOS ANGELES / SAN BERNARDINO ASSESSMENT AREA**

The geographic distribution of loans and lending to businesses of different size performance criteria is evaluated using loans originated within the bank's Los Angeles/San Bernardino assessment area. This portion of the evaluation is based on a total of 62 small business loan originations during 2000 and year to date June 30, 2001. In addition, the bank originated 3 business loans greater than \$1 million in size to businesses with revenues of less than \$1 million, which are also included in this portion of the analysis. Aggregate loan data is not referenced or presented in this analysis because it is not yet available for calendar year 2000.

### **GEOGRAPHIC DISTRIBUTION OF LOANS**

Overall, WSB's lending reflects a reasonable geographic dispersion of small business loans throughout its assessment area. Table 10 below shows the dispersion of all small business loans originated in the assessment area by geography for the 18-month period January 2000 through June 30, 2001 within WSB's Los Angeles/San Bernardino assessment area. Lending in low- and moderate-income census tracts is slightly more than the percentage of both census tracts and small businesses by geography. Lending in middle-income tracts is slightly below the percentage of census tracts and small businesses by both number and dollar volume of loans, but is not of concern.

| <i>Table 10 – Distribution of Small Business Loans by Income Category of the Census Tract</i> |   |  |                        |          |                      |          |
|---|---|--|------------------------|----------|----------------------|----------|
| <i>Census Tract<br/>Income Level</i>  | <i>% of Total<br/>Census Tracts in<br/>AA</i> | <i>% of Total Number<br/>of Small<br/>Businesses in AA</i> | <i>Number of Loans</i> |          | <i>Dollar Volume</i> |          |
|   |   |  | <i>#</i>               | <i>%</i> | <i>\$<br/>(000s)</i> | <i>%</i> |
| <b>Low</b>  | 0.9   | 1.1  | 2                      | 3.2      | 330                  | 2.1      |
| <b>Moderate</b>   | 17.2  | 20.6   | 13                     | 21.0     | 3,623                | 23.1     |
| <b>Middle</b>   | 46.8  | 50.1   | 26                     | 41.9     | 6,059                | 38.6     |
| <b>Upper</b>  | 34.8  | 28.2   | 21                     | 33.9     | 5,691                | 36.2     |
| <b>\$0/NA Income</b>  | 0.3   | 0  | 0                      | 0        | 0                    | 0        |
| <b>Total</b>  | 100%  | 100%   | 62                     | 100%     | 15,703               | 100%     |

*Source: Bank records 2000 and year to date June 30, 2001 small business loan originations, 1990 U.S. Census Data, and Dunn and Bradstreet 2000*

WSB also extended three business loans totaling \$3,871,000 that are in excess of \$1 million in size to small businesses during the period reviewed. One loan for \$1,088,000 is located in a moderate-income census tract. Of the remaining two loans, one is in a middle-income and the other in an upper-income census tract. The loans are evenly distributed within the bank's assessment area and further support the bank's reasonable dispersion throughout this assessment area.

**LENDING TO BUSINESSES OF DIFFERENT SIZES**

WSB’s volume of lending to businesses with gross annual revenues (GAR’s) of less than or equal to \$1 million is considered reasonable given the demographics of the assessment area. Table 11 below shows the bank’s overall distribution of small business loans by business revenue.

***Table 11 - Distribution of Small Business Loans by Gross Annual Revenues of Business***

| <b><i>Gross Annual Revenues (000s)</i></b> | <b><i>% of Total Number of Small Businesses in AA</i></b> | <b><i>Number of Loans</i></b> |                 | <b><i>Dollar Volume</i></b> |                 |
|--|---|-------------------------------|-----------------|-----------------------------|-----------------|
|  |   | <b><i>#</i></b>               | <b><i>%</i></b> | <b><i>\$ (000’s)</i></b>    | <b><i>%</i></b> |
| ≤ \$1,000                                  | 84.2  | 30                            | 46.2            | 9,233                       | 47.1            |
| > \$1,000 or NA                            | 15.8  | 35                            | 53.8            | 10,341                      | 52.9            |
| <b>Totals</b>                              | 100%  | 65                            | 100%            | 19,574                      | 100%            |

*Source: Bank records and Dunn & Bradstreet 2000*

Included in the above table are 3 business loans greater than \$1 million in dollar amount originated to small businesses. As shown by the above table, approximately 46 percent by number and 47 percent by dollar amount of loans originated during the 18-month period reviewed were extended to businesses with GAR’s of less than or equal to \$1 million. Whereas these percentages are low when compared to the 84 percent of area businesses with GAR’s of less than or equal to \$1 million, the percentages are not considered unreasonable considering the bank’s business strategy and the significant competition within the assessment area. Approximately 61 percent of businesses in the assessment area are either retail trade or service oriented that generally require multiple branch locations or a cash vault large enough to handle the needs of retail type businesses. WSB’s business strategy is to focus on the lending needs of companies that deal in trade financing, wholesale trade, and manufacturing, which in many cases have gross revenues that exceed \$1 million due to the types of products they are manufacturing or importing.

Table 12 below shows a detailed breakdown of WSB’s distribution of small business loans by business revenue.

| <b>Table 12 – Distribution of Small Business Loans by Gross Annual Revenue</b> |               |                |                      |                |
|--|---------------|----------------|----------------------|----------------|
| <b>Gross Revenue</b>   | <b>Number</b> | <b>Percent</b> | <b>Dollar Amount</b> | <b>Percent</b> |
| Less than \$100,000  | 6             | 9.2            | 1,200                | 6.1            |
| \$100,000 to \$250,000   | 8             | 12.3           | 5,059                | 25.9           |
| >\$250,000 to \$500,000  | 12            | 18.5           | 2,083                | 10.6           |
| >\$500,000 to \$1,000,000  | 4             | 6.1            | 891                  | 4.6            |
| >\$1,000,000   | 30            | 46.2           | 9,765                | 49.9           |
| NA   | 5             | 7.7            | 576                  | 2.9            |
| <b>Totals</b>  | <b>65</b>     | <b>100%</b>    | <b>\$19,574</b>      | <b>%</b>       |

As shown in the table above, approximately 40 percent by number and 43 percent by dollar amount of loans were extended to small businesses with GAR’s of \$500,000 or less. The penetration rate among smaller businesses illustrates the bank’s focus on helping to meet the credit needs of small businesses within the Los Angeles/San Bernardino assessment area.

Additional analysis of the distribution of the bank’s small business loans by loan size reflects the institution’s willingness to make small size business loans to small businesses. Included in this analysis are five “N/A” income loans totaling \$576,000. These loans are included in the analysis as it is reasonable to surmise that, based on the average loan amount (\$115,000) the business borrower does not generate gross annual revenues in excess of \$1 million. Table 13 below shows that 43 percent of small business loan originations by number were for amounts up to \$100,000 and an additional 29 percent were for amounts greater than \$100,000, but less than or equal to \$250,000. Combined these two categories total 71 percent of the bank’s small business loan originations by number of loans to small businesses. The dollar volume however, is predominately in the category of loans greater than \$250,000. This does not have a negative impact on the overall distribution by loan size considering that it would only take a few larger sized loans to impact the dollar volume totals.

| <b>Table 13 – Distribution of Small Business Loans to Small Businesses by Loan Size</b> |                        |             |                      |             |
|---|------------------------|-------------|----------------------|-------------|
| <b>Loan Size (000s)</b>   | <b>Number of Loans</b> |             | <b>Dollar Volume</b> |             |
|   | <b>#</b>               | <b>%</b>    | <b>\$ (000’s)</b>    | <b>%</b>    |
| <b>&lt; \$100</b>   | 15                     | 42.8        | 959                  | 9.8         |
| <b>&gt; \$100 &lt; \$250</b>  | 10                     | 28.6        | 1,777                | 18.1        |
| <b>&gt; \$250 &lt; \$500</b>  | 5                      | 14.3        | 2,086                | 21.3        |
| <b>&gt; \$500 &lt; \$1,000</b>  | 2                      | 5.7         | 1,116                | 11.4        |
| <b>&gt;\$1,000,000</b>  | 3                      | 8.6         | 3,871                | 39.4        |
| <b>Totals</b>   | <b>35</b>              | <b>100%</b> | <b>\$9,809</b>       | <b>100%</b> |

*Source: Bank records (Includes all commercial loan originations with gross annual revenues less than or equal to \$1,000,000 and all N/A revenues)*

### **CONCLUSIONS WITH RESPECT TO LENDING IN THE SAN MATEO ASSESSMENT AREA**

The bank's San Mateo assessment area was reviewed utilizing limited scope procedures. Both of the bank's branches offer similar credit and financial services. Conclusions regarding the performance criteria for this metropolitan area where full scope procedures were not employed do not negatively impact the CRA rating.

The bank's San Mateo County assessment area is wholly contained in San Francisco MSA 7360. When compared to the bank's Los Angeles/San Bernardino assessment area, it accounts for, in total, the following six items:

- approximately 24 percent of the total census tracts in the assessment areas
- approximately 15 percent of the total population in the assessment areas
- approximately 17 percent of all small businesses in the assessment area
- approximately 5 percent by number and 5 percent by dollar volume of all small business loans originated within the assessment areas in 2000 and year-to-date 2001 combined.

Branch small business lending in the San Mateo assessment area totaled 3 or 4.6 percent by number and \$825,000 or 5.0 percent of the dollar volume of the bank's total small business loan originations in 2000 and year to date 6-30-01. Western State Bank opened the South San Francisco branch on September 25, 1998 amid the significant growth era of the dot com industry. However, current economic conditions have created a significant slowing of the area economy. In addition, competition from other financial entities has an adverse impact on WSB's ability to offer similar rates and terms to small businesses. Therefore, the low volume of small business loans in this assessment area does not negatively impact the bank's overall CRA rating.

### **RESPONSE TO COMPLAINTS**

WSB has not received any CRA-related complaints since the last examination. Therefore, this assessment factor is not considered in the overall rating.

### **COMPLIANCE WITH ANTI-DISCRIMINATION LAWS AND REGULATIONS**

No substantive violations of anti-discriminatory regulations were identified during the examination.