



**Comptroller of the Currency
Administrator of National Banks**

Western District
50 Fremont Street, Suite 3900
San Francisco, California 94105
(415) 545-5900

PUBLIC DISCLOSURE

October 18, 1996

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**National Bank of the Redwoods
Charter Number 18541**

**111 Santa Rosa Avenue
Santa Rosa, CA 95404**

**425 Market Street, Suite 2800
San Francisco, CA 94105**

<p>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.</p>

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 **National Bank of the Redwoods** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of October 18, 1996. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 25.*

INSTITUTION'S CRA RATING: This institution is rated “**Outstanding.**”

National Bank of the Redwood's CRA performance evaluation is based on the following factors: (1) a more than reasonable loan-to-deposit ratio; (2) a substantial majority of lending within their assessment areas; (3) very good dispersion of credit throughout Sonoma County and excellent dispersion throughout Mendocino County; (4) a majority of the bank's lending is made to small businesses; and (5) the additional services they provide to enhance credit availability in their assessment areas.

The following table indicates the performance level of **National Bank of the Redwoods** with respect to each of the five performance criteria.

SMALL INSTITUTION ASSESSMENT CRITERIA	National Bank of the Redwoods Performance Levels		
	Exceeds Standards for Satisfactory Performance	Meets Standards for Satisfactory Performance	Does not meet Standards for Satisfactory Performance
Loan to Deposit Ratio	X		
Lending in Assessment Area	X		
Lending to Borrowers of Different Incomes and to businesses of Different sizes	X		
Geographic Distribution of Loans		X	
Response to Complaints	N/A	N/A	N/A

DESCRIPTION OF INSTITUTION:

National Bank of the Redwoods (NBR) is a community bank providing general banking services to Sonoma and Mendocino Counties, and had assets totaling \$241,209,000, as of 6/30/96. The bank is a wholly owned subsidiary of Redwood Empire Bancorp. There are five full service branches in Sonoma County and one in Mendocino County, with an additional offsite ATM in Sonoma County. The bank has a commercial banking focus with 86% of its portfolio consisting of loans to businesses as of 9/30/96. In the fourth quarter of 1994, National Bank of the Redwoods acquired Coddling Bank of Rohnert Park.

DESCRIPTION OF ASSESSMENT AREAS:

Sonoma County is approximately 50 miles north of San Francisco, and is part of the Santa Rosa Metropolitan Statistical Area (MSA). The county has a total population of 388,000 people and has 60 census tracts, none of which are low income, and eight, or 13%, are moderate income. According to Dun & Bradstreet, in the first quarter of 1996, a total of 17,900 businesses operate in the county, 90% of which have annual revenues of less than \$1,000,000. The economy consists of 42% services, 19% retail trade,

11% construction, and 9% finance, insurance, and real estate businesses. According to a community contact specializing in business in the Santa Rosa area, 1996 has shown positive trends due to sales growth and expansion, and a decrease in vacancy rates of commercial real estate. Population continues to grow as a result of migration northward from the San Francisco Bay Area primarily due to lower costs of living in the cities of Santa Rosa, Petaluma, and Rohnert Park. Small business lending and affordable housing loans are the primary credit needs in the county.

Mendocino County is directly north of Sonoma County, and is not in any MSA. The county has a total population of 80,000 people and has 19 Block Numbering Areas (BNAs), none of which are low income and one, or 16%, is moderate income. According to Dun & Bradstreet, in the first quarter of 1996, a total of 5,400 businesses operate in the area, of which 94% have annual revenues of less than \$1,000,000. The economy consists of 41% services, 23% retail trade, 9% construction, and 7% finance, insurance, and real estate businesses. The banking environment is not as competitive as Sonoma County. The economic center of the county is the city of Ukiah, which is where most banking institutions are centered in the county. Small business lending and affordable housing loans are the primary credit needs in the county.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan to Deposit Ratio:

- **National Bank of the Redwood's loan to deposit ratio significantly exceeds peer group averages and is more than reasonable given the bank's size, financial condition, and assessment area credit needs.**

National Bank of the Redwoods's net loans and leases to total deposits for the eight quarters ending 9/30/94 to 6/30/96 averaged 80.5%. This ratio is significantly higher when compared to a peer group comprised of community banks located in Sonoma and Mendocino Counties which averaged 68.3% over the same eight quarters. The bank also compares favorably to its national peer group average loan to deposit ratio of 68.8% for the same period.

Lending in the Assessment Areas:

- **A substantial majority of loans are made within the bank's designated assessment areas.**

Over the two year period from 10/1/94 to 9/30/96, National Bank of the Redwoods made 1,149 loans out of 1,292, or 89%, of their commercial loans within their assessment areas. By dollar amount, \$150,585,000 out of \$182,698,000, or 82%, of their commercial loans were made within their assessment areas.

Lending to Businesses of different sizes :

- **Given the demographics of the area and the business focus of the bank, the distribution of borrowers shows very good penetration among businesses of different sizes in both Sonoma and Mendocino Counties.**

To analyze the level of lending to small businesses the proxy method was used. We looked at the percentage of loans under \$100,000 and then used sampling to determine a correlation between small loans and businesses with less than \$1,000,000. For the last six quarters, from 4/1/95 to 9/30/96, National Bank of the Redwoods made 447 business loans in Sonoma County and 144 in Mendocino County of less than \$100,000. A sample of 50 loans from Sonoma County showed that 74% were made to businesses with revenues of less than \$1,000,000. A sample of 25 loans from Mendocino County showed that 88% of the loans were made to businesses with less than \$1,000,000 in annual revenue. Given the levels of consumer lending, borrower income was not analyzed. In light of the highly competitive banking environment and the bank's ability to focus on larger businesses, National Bank of the Redwoods' efforts and level of lending to small businesses shows a commitment to meeting the small business credit needs of their area.

Commercial Originations (4/1/95-9/30/96)

	Sonoma County	Mendocino County
Loans \$100,000 or less	75%	84%
Loans \$100,001 to \$1,000,000	23%	15%
Loans over \$1,000,000	2%	1%
% of Small Businesses in County	90%	94%

Geographic Distribution of Loans:

- **The geographic distribution of loans reflects good dispersion throughout Sonoma County and excellent dispersion throughout Mendocino County.**

For the seven quarters from 10/1/94 to 6/30/96, National Bank of the Redwoods had good penetration in moderate-income census tracts in Sonoma County, as compared to the percentage of the population within those tracts. For the same period, the bank's lending shows excellent dispersion of credit in moderate-income BNAs in Mendocino County. In both assessment areas, there is good loan penetration in all income categories.

Lending in Moderate-Income Tracts or Block Numbering Areas

	Sonoma County	Mendocino County
# of Loans	15%	26%

\$ of Loans	19%	18%
% of Moderate Tracts or BNAs	13%	16%

Response to Complaints:

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation conducted in August of 1994.

Investments:

The bank is an active member of the California Economic Development Lending Initiative (CEDLI), which is a consortium of financial institutions and corporate investors to fund non-conventional affordable housing projects. National Bank of the Redwoods owns 0.6%, or \$25,000, of CEDLI stock and has funded 0.65%, or \$250,000, of CEDLI's loan pool.

Services:

National Bank of the Redwoods has provided many services to enhance the availability of credit within their assessment areas:

- National Bank of the Redwoods has Preferred Lender status from the Small Business Association (SBA). The bank provides underwriting and loan packaging services to the SBA under this status, facilitating small business credit in their assessment areas. For the six month period from 10/1/95 to 3/31/96, the bank underwrote and packaged 22 SBA loans totaling \$6,000,500. Out of the 140 San Francisco District SBA lenders, they ranked 8th by number and 6th by dollar amount.
- Management has exhibited a leadership role in organizing and promoting the Empire Small Business Program (ESBP). This program funds small business loans that do not meet conventional loan requirements. Since its inception in early 1995, 6 loans have been funded totaling \$113,000.
- National Bank of the Redwoods was instrumental in packaging and participating out two local affordable housing projects in 1995 and 1996. The bank funded a total of \$2.5 million and participated out the additional \$4.5 million to the Sonoma County Loan Consortium (organized by National Bank of the Redwoods in 1991). The projects made improvements on 58 lots and constructed 61 affordable units with selling prices of \$90,000 to \$130,000.
- In 1996, National Bank of the Redwoods packaged and submitted three loans to CEDLI, two of which totaling \$320,000 were funded from the CEDLI loan pool.

- Bank branches have a prominent presence in moderate income areas. The only Mendocino County branch is located in one of the three moderate income tracts. Of the five branches located in Sonoma County, two are located in two of the eight moderate income tracts.
- Electronic banking and courier services facilitate credit availability within Sonoma County. All credit draws and payments, may be done electronically or via the bank's courier. Currently, ten courier trucks are in service reaching virtually all the moderate income tracts within the Sonoma assessment area. Approximately 60% of all transactions are conducted using these services.

Other Items:

The bank is in compliance with antidiscrimination laws and regulations. These include the Equal Credit Opportunity Act, The Fair Housing Act, and the Home Mortgage Disclosure Act. There was no evidence in our Fair Lending Examination to indicate any discrimination against protected classes.