



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

Small Bank

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PUBLIC DISCLOSURE

April 6, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Kaweah National Bank
Charter Number 22832**

**500 West Main Street
Visalia, California 93278**

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the Community Reinvestment Act (CRA) performance of **Kaweah National Bank** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of **April 6, 1998**. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A of 12 CFR Part 25.*

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

Kaweah National Bank’s CRA performance rating is based on the following factors: (1) a more than reasonable loan-to-deposit ratio; (2) a majority of lending within the bank’s assessment area; (3) a reasonable distribution of loans among businesses of different sizes and individuals of different income levels; and, (4) the geographic distribution of loans within the assessment area does not meet the standard for satisfactory performance.

DEFINITIONS OF TERMS USED IN THIS PUBLIC DISCLOSURE

Low - Income Geography:

For a census tract: The median *family* income is less than 50% of the median *family* income for the MSA in which it is located.

Moderate - Income Geography:

For a census tract: The median *family* income is equal to or greater than 50% and less than 80% of the median *family* income for the MSA in which it is located.

Middle - Income Geography:

For a census tract: The median *family* income is equal to or greater than 80% and less than 120% of the median *family* income for the MSA in which it is located.

Upper - Income Geography:

For a census tract: The median *family* income is equal to or greater than 120% of the median *family* income for the MSA in which it is located.

LMI:

Abbreviation for "low- or moderate - income." Characterizes geographies and families.

Median Family Income:

As determined by U.S. Census Bureau data in 1990.

1997 HUD Median Family Income:

Updated U.S. Census Bureau data, determined by the Department of Housing and Urban Development for 1997.

MSA:

Metropolitan Statistical Area.

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

KAWEAH NATIONAL BANK PERFORMANCE LEVELS			
SMALL INSTITUTION ASSESSMENT CRITERIA	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	No complaints were received since the previous Performance Evaluation		

DESCRIPTION OF INSTITUTION:

Kaweah National Bank (KNB) is a community bank that converted from a Thrift & Loan Association in February 1995. The bank provides full service banking in Tulare County at its Visalia head office and Tulare branch. It also operates a loan production office in Porterville. The Visalia branch and the Porterville loan office are located in middle - income census tracts. Each location adjoins one moderate - income census tract. The Tulare branch is located in an upper - income census tract, adjoining two moderate - income census tracts.

As of December 31, 1997, total assets are **\$38 million**, total loans outstanding are **\$30 million**, and total deposits are **\$34 million**. The bank's lending emphasizes financing for commercial real estate, construction and development for housing and commercial use, and small- and medium-size businesses. A smaller portion of its lending is for individual loans and residential real estate loans. Most of the commercial loans are to businesses involved in agricultural processing or services to agricultural producers. The bank does not make loans directly to farmers and ranchers for agricultural production.

For the exam review period of March 31, 1996 through February 28, 1998, the bank originated 446 loans for total commitments of \$42 million. Of these, 60 (14% by number and 36% by dollar volume) were for commercial real estate; 161 (36% by number and 36% by dollar volume) were for businesses; 52 (12% by number and 19% by dollar volume) were for residential construction and development; and 173 (39% by number and 10% by dollar volume) were to individuals. A majority of the sampled business loans (including commercial real estate and development / construction loans) were to borrowers with annual revenues of \$1 million or less.

The loan origination data excludes mortgage loans that were originated through a brokerage relationship. The bank obtains and processes loan applications for the benefit of an unrelated mortgage lender. KNB does the initial funding for approved loans, based on the underwriting criteria and final approval of the mortgage lender. The loans are sold within days to the lender on a pre-committed basis.

For a snapshot view of the bank's loan portfolio, the following table shows loans outstanding as of December 31, 1997. Residential loans represent a larger proportion of loans outstanding than their share of loan originations. This is because the bank has a portfolio of seasoned residential loans that were booked when the institution was a Thrift.

Loan Type as of 12/31/97	\$ Million	%
Commercial Real Estate	\$12.5	42%
Commercial	\$6.6	22%
Residential Real Estate	\$6.0	20%
Construction & Development	\$4.0	14%
Individual	\$0.7	2%
Total Loans Outstanding	\$29.8 Million	100%

Source: Bank data

The bank received a “Satisfactory” rating at the previous CRA examination in 1995. The bank competes with several community banks and thrifts based in its area, as well as with branches of several large institutions. We are not aware of any impediments restricting the bank’s ability to meet the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA:

The Board and management have defined KNB’s assessment area as Tulare County, which is a full MSA. The assessment area contains 54 contiguous census tracts, with a population of 311,921 based on 1990 Census data. The distribution of census tracts, families, and income is described below.

The eastern two-thirds of the county include large portions of the Kings Canyon and Sequoia National Parks, Inyo and Sequoia National Forests, and the southwestern end of the Sierra Nevada Range. State Route 99 traverses the county from the northwest to the southwest. Most of the population of the assessment area resides in the cities or agricultural areas within 20 miles east or west of this highway, except that the county line is within 5 to 10 miles west of the highway in the northwest portion of the county. The major population centers in order of size are Visalia, Porterville, and Tulare. The city of Visalia is the county seat, containing nearly one-third of the county population.

The 1990 Census data showed the median family income as \$27,900. This compares to \$41,848 for all MSA’s in California and \$29,947 for the rural, non-MSA portions of California. The Census median housing value was \$75,936, which is 2.7 times the median family income. HUD median family income was updated in 1997 to \$32,100. In 1996, housing prices grew 63% to a HUD-estimated median of \$123,474, which equaled 3.8 times the median family income. Based on local conventional mortgage terms and the 1997 HUD median family income, the maximum affordable home price is estimated at \$60,000 for low-income borrowers, and \$107,000 for moderate-income borrowers. The owner occupancy rate in the 1990 Census for all housing units was 55%.

The income distribution among census tracts indicates the assessment area is relatively affluent. The distribution of census tracts by tract income is shown on the following table:

Census Tracts & Population within the Assessment Area				
Income category of Census Tract	# of Census Tracts	% of all Census Tracts	1990 Population	% of Population within Tract Income Category
Low	0	0 %	0	0 %
Moderate	14	27 %	86,277	28 %
Middle	26	47 %	147,707	47 %
Upper	13	26 %	77,112	25 %
NA	1	*	825	*
Total	54	100 %	311,921	100 %

Source: 1990 Census data

* < 0.5 % of total

LMI families reside in all income classifications of census tracts present in the MSA, but are distributed more heavily in tracts with higher incomes than the families' corresponding income levels. The LMI proportion of total families is almost exactly the same as the 39% share of families in all MSA's in California, and the 39% share of families in all rural, non-MSA areas in California.

Tulare County's economy is dominated by agriculture and supporting services. According to the Tulare County Economic Development Corporation, the value of the county's agricultural production in 1996 was \$2.8 billion, ranking second in the state. Based on U.S. Labor Department employment data for 1994, the five largest employment sectors are wholesale trade, services, government, farming, and manufacturing. Dun & Bradstreet economic reports show that 9,620 businesses operate within the bank's assessment area, including 8,667 non-farm businesses and 953 farms. Of these, 76% have reported annual revenues of \$1 million or less. Approximately 82% employ fewer than ten employees. For March 1998, the county's unemployment rate was 18.4%. This compares to 6.0% for all of California and 4.7% for the United States.

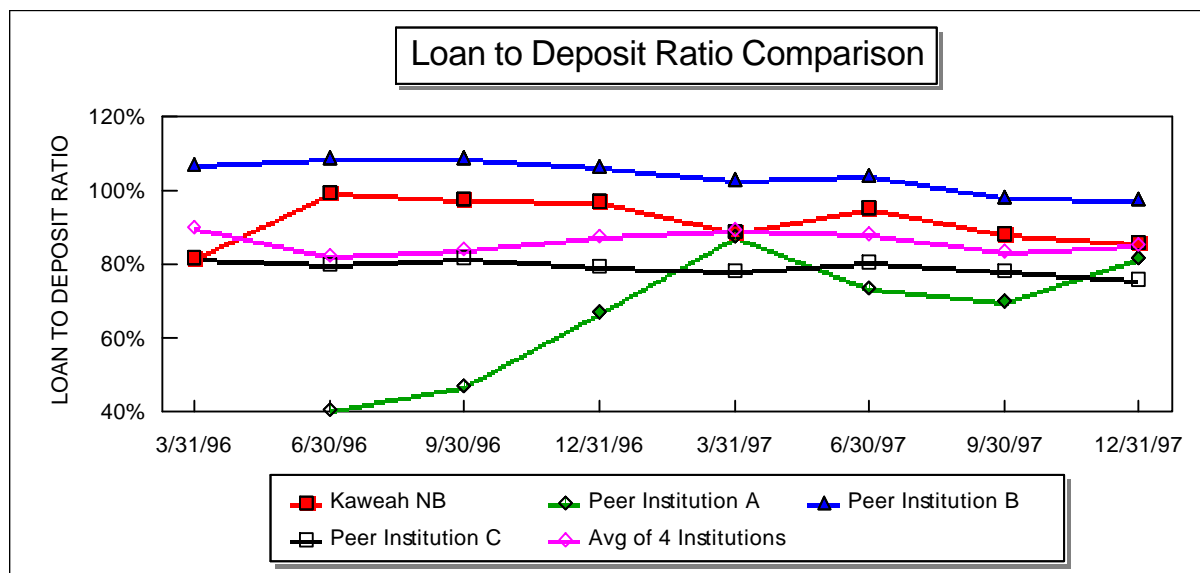
The Board and management have identified the community's credit needs as employment development for unskilled labor, development of affordable housing, and commercial lending in amounts of \$500,000 or less. It is felt that commercial lending for over \$500,000 is well-supplied by the local branches of large institutions.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

Loan-to-Deposit Ratio:

- **Kaweah National Bank's loan to deposit ratio is more than reasonable given the bank's size, financial condition, and assessment area credit needs.**

The ratio of net loans and leases to total deposits for the eight quarters ending December 31, 1997 was 81.6%. This is slightly below the peer group average of 84.4% for the same period. The peer group consists of community banks with assets less than \$250 million and headquartered in Tulare County. The graph below displays the loan to deposit comparison:



The bank enhanced this lending activity with loan participations sold that are not represented in balance sheet data. To accommodate larger credit needs for commercial and real estate development borrowers, the bank made four business loans during the review period in gross amounts of \$2.9 million for which \$1.7 million was sold. (The unsold portion is included in the loan data in the graph).

As described in the "Description of Institution" section, the bank also originated residential mortgage loans as a broker for an unrelated mortgage lender. During the review period, the bank originated 33 of these loans for \$4.2 million.

Lending in the Assessment Area:

- **A majority of the bank's loan originations were made within the bank's assessment area during the review period.**

We collected data from a sample of the bank’s business, real estate, and consumer loans originated during the review period. This sample indicates that 75% by number and 66% by dollar volume were within the bank’s assessment area. The following table reflects the distribution of the bank’s loan originations.

Loan Originations Within the Assessment Area Commercial, Real Estate, and Consumer Loans & Commitments				
	Commercial	Real Estate	Consumer	Total
# Sampled	19	12	28	59
% of Type Sampled (#)	12 %	11 %	16 %	13 %
# within Area	15	7	22	44
% within Area (#)	79 %	58 %	79 %	75 %
\$ 000 within Area	\$ 2,554	\$ 2,250	\$ 951	\$ 5,755
% within Area (\$)	78 %	51 %	93 %	66 %

Source: Bank data

As described in the “Loan-to-Deposit Ratio” section, the bank’s level of originations is enhanced by the sale of loan participations and brokered mortgage loan originations. Of the \$1.7 million of commercial and real estate loan participations sold, two were for loans within the assessment area for \$254,000. We did not determine the portion of the brokered mortgage originations that were within the assessment area.

Lending to Businesses of Different Sizes and Borrowers of Different Incomes:

This criterion and the “geographic distribution” criterion were given the most weight in the determination of the bank’s CRA rating.

(1) Business Lending

- **Given the demographics of the bank’s assessment area, KNB’s lending reflects a reasonable penetration among businesses of different sizes.**

Lending opportunities are strong, based on Dun & Bradstreet data. Of the businesses within the area, 75% had reported income of \$1 million or less. We sampled the bank’s originations of commercial loans, commercial real estate loans, and real estate development loans. Of the sampled loans within the bank’s assessment area, we found that a majority (62% by number and 42% by dollar volume) were to small businesses. The following table shows the distribution of these business loan originations.

Distribution of Sampled Business Loan Originations, Within Assessment Area By Business Income -- 3/31/96 through 2/28/98						
	# of Non-farm Businesses *	% of Non- farm Businesses	Loans #	% of # of Loans	Loans \$ 000	% of \$ of Loans
Loans to Businesses with sales <= \$1,000,000	6,548	75 %	13	62 %	2,016	42 %
Loans to Businesses with sales > \$1,000,000	685	8 %	8 **	38 %	2,749	58 %
Subtotal of Loans with Income Reported	7,233	83 %	0	0 %	0 %	0 %
Loans with Business Income Not Reported	1,434	17%	0	0 %	0 %	0 %
Totals	8,667	100 %	21	100 %	4,765	100 %

* Dun & Bradstreet data

** Of the loans to large businesses, 3 are to real estate developers

As part of its lending to small businesses, the bank uses government guaranteed and subsidized loan products offered through the Small Business Administration and the Valley Small Business Loan Development Corporation. During the review period, the bank originated nine of these loans for total commitments of \$1.3 million. Of these, five loans for \$953,300 were within the bank's assessment area. Two of the loans (\$560,000) in the assessment area are included in the sample data in the table above.

(2) Consumer Lending

- **The distribution of consumer lending is satisfactory, based on the bank's business lending niche and the connection of consumer lending to the bank's business relationships.**

The limited volume of consumer and mortgage lending limits the value of analysis of this data. During the review period, the bank originated 12 mortgage loans and 35 other consumer loans. We sampled 5 of the mortgage loans (\$574,000) and 18 of the other consumer loans (\$416,700). Of the 23 sampled loans, one was to a low-income family, two were to moderate-income families, and 20 were to upper-income families. None of the mortgage loans discussed here were through the brokerage relationship described earlier.

Geographic Distribution of Loans:

This criterion and the "different incomes" criterion were given the most weight in the determination of the bank's CRA rating.

- **The distribution of loan originations reflects a disproportionate dispersion among census tracts of different income levels throughout KNB's assessment area.**

We sampled 59 (13%) of the bank's loan originations of all types during the review period. Of these, 44 were found to be within the bank's assessment area. We performed a geographic analysis of the loans within the assessment area to determine the following distribution:

Distribution of Sampled Loan Originations Within the Assessment Area -- By Census Tract						
Income Characteristic	# of Loans	% of # of Loans	\$ of Loans (000)	% of \$ of Loans	Tracts in Assessment Area	% Tracts in Assessment Area
Low-income Tract	0	0	0	0	0	0
Moderate-income Tract	4	9 %	371	6 %	14	26 %
Middle-income Tract	36	82 %	4,757	83 %	26	48 %
Upper-income Tract	4	9 %	628	11 %	13	24 %
N/A Tracts	0	0	0	0	1	2 %
Total	44	100 %	5,756	100 %	54	100 %

The assessment area has no low-income census tracts. The proportion of loans made within moderate-income tracts is below the share these tracts have of total tracts -- 9% by number and 6% by dollar volume, versus 27% moderate-income tracts in the area. However, several of the MSA's moderate-income census tracts are located in the southern and northern sections of the county, where the bank has no presence. A geographic distribution of all businesses in the county was not available.

OTHER ITEMS

Response to Complaints:

Management has not received any complaints about the bank's CRA performance since the last CRA evaluation conducted in May 1996.

Anti-Discrimination Laws:

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