



## **PUBLIC DISCLOSURE**

October 08, 2014

### **COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

Northern California National Bank  
Charter Number 24626

1717 Mangrove Avenue, Suite 100  
Chico, CA 95926

Office of the Comptroller of the Currency

One Front Street  
Suite 1000  
San Francisco, CA 94111

**NOTE:** This document is an evaluation of this 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. 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.

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

Northern California National Bank (NCNB) satisfactorily meets the credit needs of its assessment area (AA), including low- and moderate-income areas, consistent with its resources and capabilities. The following supports this rating:

- NCNB's loan-to-deposit ratio is less than reasonable given the bank's size, financial condition, and the credit needs of the community. However, management is actively marketing for high quality loans.
- The bank's lending in the AA exceeds the standard for satisfactory performance.
- The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of its AA.
- The bank's geographic distribution of loans reflects excellent dispersion throughout the AA.
- There have been no written complaints regarding the bank's performance in meeting its community's credit needs.

**SCOPE OF EXAMINATION**

We evaluated NCNB's performance based on loans originated from January 1, 2012 through October 7, 2014. We focused our evaluation on the bank's primary product lines, non-residential real estate and commercial. For purposes of this examination, we combined both under one category (business loans). Home mortgage and agricultural loan products were not selected to be reviewed since the bank is not a major mortgage or agricultural lender in this market. We randomly selected 20 business loans for our sample to review the bank's lending in its AA.

**DESCRIPTION OF INSTITUTION**

NCNB was chartered on March 28, 2006. As of June 30, 2014, NCNB had total assets of \$167 million, with \$60 million in loans. The bank's net loans represent 36 percent of total assets. NCNB is headquartered in Chico, CA, which is located in Butte County. NCNB operates one full service branch at its headquarters in Chico, CA, with no other branches.

NCNB focused its lending activity on non-residential real estate and commercial loans, although residential real estate and agricultural loans are also available.

There are no legal or financial circumstances impeding the bank's ability to help meet the credit needs of the community. The bank's CRA performance was previously evaluated on February 23, 2009, and found to be satisfactory.

Table 1

NORTHERN CALIFORNIA NATIONAL BANK LOAN PORTFOLIO COMPOSITION		
Loan Type	\$ Volume (000)	% of Portfolio
Commercial (including Non Residential RE)	36,364	61
Residential RE	16,740	28
Agricultural	5,435	9
Other	1,490	2
Total Loans	60,029	100

Source: Call Report as of 6/30/14

***Please refer to the bank’s CRA public file for more information about the institution.***

## **DESCRIPTION OF ASSESSMENT AREA(S)**

NCNB’s management and board of directors have designated the Chico metropolitan statistical area (MSA), which includes all census tracts located in Butte County, as the bank’s AA. The AA meets the requirements of the regulation and does not arbitrarily exclude any low- or moderate-income geography.

In conjunction with this CRA examination, we conducted a community contact interview. Community contacts are interviewed to learn about credit opportunities within the community, and how well financial institutions address the credit and service needs of the community. The contact was a representative of a local government center for economic development. The contact felt there is a need for participation from financial institutions to assist small businesses with their creation and growth. The contact felt that overall, financial institutions in the community are very helpful and approachable.

### **The Chico Assessment Area**

The AA consists of 51 census tracts in Butte County, which were determined by the 2010 U.S. Census. The City of Chico serves as the county seat of Butte County. Butte County is located 80 miles north of Sacramento, with a total population of 220,000.

According to Moody’s Economy.com for 2014, Chico’s economy is showing signs of recovery, with an unemployment rate of 8.6%, its lowest since 2009. Moody’s noted the unemployment rate will begin to recover more quickly as hiring picks up in private services. The housing market is slowly recovering and foreclosures are back to prerecession levels, but house prices remain significantly below their prerecession peak. The major employers in the area are Enloe Medical Center and California State University – Chico.

The following table highlights the demographic composition of the NCNB AA.

Table 2

<b>CHICO AA COMPOSITION</b>						
<b>INCOME CHARACTERISTICS OF CENSUS TRACTS, BUSINESSES AND FAMILIES</b>						
<i>Income of Census Tract</i>	<b># and % of Census Tracts</b>		<b># and % of Businesses</b>		<b># and % of Families</b>	
Low Income	1	1.96%	70	0.41%	550	1.05%
Moderate Income	14	27.45%	4,657	27.50%	10,719	20.47%
Middle Income	25	49.02%	7,630	45.06%	26,914	51.39%
Upper Income	11	21.57%	4,576	27.02%	14,194	27.10%
N/A	0	0%	0	0%	0	0%
<b>Total:</b>	<b>51</b>	<b>100.00%</b>	<b>16,933</b>	<b>100.00%</b>	<b>52,377</b>	<b>100.00%</b>

Source: 2013 Business Geodemographic Data

The two largest employment sectors in the bank’s MSA employ 56.2 percent of the workforce: services (43.21 percent), and retail (13.01 percent), according to the 2013 Business Geodemographic Data.

There are 16,933 businesses that operate within this AA. Of those, approximately 77 percent have reported annual revenues of \$1 million or less. Approximately 79 percent employ fewer than ten people. The weighted average of median family income is \$57,443, and the weighted average of median housing is \$268,027.

Competition in the area is strong with 11 banks operating within Butte County. NCNB ranks 8<sup>th</sup> in deposit market share with 4.72 percent. The five largest banks hold 77.76 percent of the deposit market share. Other area banks include Tri Counties Bank; Wells Fargo Bank, N.A.; Bank of America, N.A.; JPMorgan Chase Bank, N.A.; and Rabobank, N.A.

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

### **Loan-to-Deposit Ratio**

NCNB’s loan-to-deposit (LTD) ratio is less than reasonable given the bank’s size, financial condition, and the credit needs of the community. Average LTD ratios were computed over the last 23 quarters (December 2008 to June 2014). NCNB’s average LTD ratio is 39.59 percent. We found only one other institution similar in size and location to NCNB, and found an average quarterly LTD ratio of 76.93 percent. NCNB management explained that the bank’s below peer bank ratio is due to their being a conservative bank with a strategy to have prudent, slower, quality loan growth. The bank is actively marketing for high quality loans. The assets of the peer bank are \$160.4 million, as opposed to the assets of the NCNB, which are \$166.7 million.

NCNB loan growth from December 2008 to June 2014 (time-period used for average LTD) does reflect a prudent increase as the bank has grown in asset size. Total loan volume more than doubled over the past 5.5 years, with an average annual growth rate

of 13.91 percent. The slowest pace of growth occurred in 2009, yet despite the economic recession at that time, loan volume grew at a respectable 7.06 percent rate.

### Lending in Assessment Area

The bank's lending in the AA exceeds the standard for satisfactory performance.

Table 3

NORTHERN CALIFORNIA NATIONAL BANK								
Loan Type	Number of Loans				Dollars of Loans			
	Inside		Outside		Inside		Outside	
	#	%	#	%	\$	%	\$	%
Business Loans	15	75	5	25	4,373,440	67	2,153,625	33
<b>Totals</b>	<b>15</b>	<b>75</b>	<b>5</b>	<b>25</b>	<b>4,373,440</b>	<b>67</b>	<b>2,153,625</b>	<b>33</b>

Source: Sample of 20 business loans originated from January 1, 2012 to October 7, 2014.

A majority of the bank's business loans are made within the bank's designated assessment area. Of the 20 loans sampled, the bank originated 15 loans, or 75 percent, of the number of loans to borrowers within its AA. Based on the dollar volume of loans, the inside ratio was 67 percent.

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

The bank's distribution of loans to businesses of different sizes reflects reasonable penetration, given the demographics of the AA.

Table 4

CHICO AA				
INCOME DISTRIBUTION OF LOANS TO BUSINESSES				
Business Revenues (or Sales)	≤\$1,000,000	>\$1,000,000	Unavailable/Unknown	Total
% of AA Businesses	76.90%	3.29%	19.81%	100%
% of Bank Loans in AA by #	30.00%	60.00%	10.00%	100%
% of Bank Loans in AA by \$	35.75%	62.04%	2.20%	100%

Demographic Data Source: 2013 Business Geodemographic Data.

Based on our sample of 20 loans, the percentage of loans to small businesses, as defined as businesses with revenues of less than or equal to \$1 million, within the bank's AA was 30 percent by number and 36 percent by dollar, as compared to area demographics of 77 percent. When we asked the bank if our sample was indicative of the bank's actual performance, NCNB management stated that it was not. They provided a report that included all loans made during the evaluation period with the gross annual revenues for each. It indicated that loans to businesses with revenues of less than \$1 million within the bank's AA actually made up 54 percent of the total number of loans and 35 percent by dollar volume. We verified the integrity of the data during our review. Although the bank's performance is still below area demographics,

there is a good level of competition from large institutions. Based on CRA loan data, the top six institutions made 91 percent of loans to businesses with revenues of \$1 million or less.

**Geographic Distribution of Loans**

Based on our sample, the bank's geographic distribution of loans reflects excellent dispersion throughout the AA. The bank did not penetrate all census tracts within its AA. However, we found no conspicuous gaps in the bank's distribution of loans.

Table 5

CHICO AA GEOGRAPHIC DISTRIBUTION OF LOANS TO BUSINESSES								
Census Tract Income Level	Low		Moderate		Middle		Upper	
Loan Type	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans	% of AA Businesses	% of Number of Loans
Business Loans	0.41	0.00	27.50	45.00	45.06	25.00	27.02	30.00

*Demographic Data Source: 2013 Business Geodemographic Data*

As shown in the table above, the bank's distribution of business loans originated in low-income geographies, by the percentage of number of loans, was zero, near to area demographics. The bank's distribution of business loans originated in the moderate-income geographies, by percentage of number of loans, was 45 percent. The percentage of loans in this geography exceeds area demographics of 27.50 percent.

**Responses to Complaints**

No written complaints concerning MNB's CRA performance have been received since the bank's previous CRA examination, dated February 23, 2009.

**Fair Lending or Other Illegal Credit Practices Review**

We found no evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs.