



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

Small Bank

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

PUBLIC DISCLOSURE

May 5, 1998

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Six Rivers National Bank
Charter Number 21925**

**Post Office Box 6517
Eureka, California 95502**

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 **Six Rivers National Bank (SRNB)** prepared by **The Office of the Comptroller of the Currency**, the institution's supervisory agency, as of May 5, 1998. 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 “**Satisfactory**”

- The bank's distribution of loans to businesses of different revenue size is reasonable.
- The distribution of residential mortgage loans to borrowers of different income levels is reasonable.
- SRNB's distribution of business loans is satisfactory relative to the business demographic information. The geographic distribution of the residential mortgage loans is acceptable, though it is not proportional to the tract demographics.
- Six Rivers National Bank's average loan-to-deposit ratio is very good. Their volume of residential mortgage and small business lending during the assessment period is excellent.
- Virtually all of the home mortgage and commercial loans we sampled were located within the bank's assessment area.
- SRNB'S volume of community development loans and the amount of qualified investments are excellent, and resources committed to community development services are very good.

DESCRIPTION OF THE INSTITUTION:

Six Rivers National Bank is a publicly-traded institution with assets of \$194 million as of December 31, 1997. The bank operates seven branches along with the home office, which is located in Eureka, California. The seven branches are distributed in the contiguous counties of Humboldt, Del Norte, Trinity, and Mendocino. Four of these branches were recently acquired from Bank of America, N.A. in the fourth quarter 1997.

There are no serious impediments, legal or otherwise, that affect the bank’s CRA performance. SRNB’S return on average assets for year-end 1997 was .37%, and their total equity capital represented 10.05% of total assets. As of year-end, total loans outstanding were nearly \$86 million. The year-end composition of the loan portfolio was predominately commercial loans (62%), along with 1-4 family residential loans (24%), and consumer loans (13%).

SRNB offers a variety of mortgage and business loan products. The bank is a “Preferred” Small Business Administration (SBA) lender, and offers business loans for equipment, construction and real estate, working capital, business expansion, and timber-related loans. Residential mortgage products include purchase and refinance, construction, remodeling, and home-equity products. In the fourth quarter of 1997, SRNB was awarded the right to administer the Eureka First Time Homebuyer Program for two years. Also, the bank administers Fannie Mae’s Homekeeper program (reverse mortgages).

Other institutions competing for business in the trade area include commercial banks, savings banks, credit unions, and mortgage companies. The largest reporting mortgage lenders (1996) in the four counties are First Nationwide Bank, Allied Bank FSB, Norwest Mortgage, Inc, and American Savings Bank. Institutions reporting high volumes of small business loans in the assessment area (1996) include Wells Fargo Bank, NA, Bank of America, NT&SA, U.S. Bank of California, Savings Bank of Mendocino County, and Tri Counties Bank.

DESCRIPTION OF ASSESSMENT AREA:

The Board of Directors recently approved the bank’s expanded assessment area, which includes the contiguous counties of Humboldt, Del Norte, Trinity, and Mendocino. As noted above, the bank has full-service branch locations in each of these counties. The assessment area does not arbitrarily exclude any low- or moderate-income (LMI) geographies, and the area is not located within a Metropolitan Statistical Area (MSA). The following chart summarizes the assessment area demographics by population and number of businesses.

Assessment Area Characteristics					
Income Level of Census Tract	Number of Census Tracts	Percentage of Total Tracts	Population (1990 Census)	Percentage of Families	Percentage of Businesses (1)
Low	0	0%	0	0%	0%
Moderate	11	21%	46,924	18%	32%
Middle	31	60%	158,224	68%	61%
Upper	7	13%	30,773	14%	7%
N/A	3	6%	65	0%	0%
Total	52	100%	235,986	100%	100%

(1) Based on 1997 Dunn & Bradstreet information. Reflects the estimated percentage of businesses which are located in the respective tracts.

The following is a brief description of each of the four counties comprising the bank’s assessment area. The statewide non-MSA Median Family Income based on 1990 Census data is \$29,947. Between 1995 and 1998, the estimated HUD Median Family Income

rose from \$34,200 to the present \$36,500.

Humboldt County is the most highly populated of the four counties, with a 1990 population of approximately 119,118 and over 30,000 families. Of the total families, 21% were low-income, 18% moderate-income, 21% middle-income, and 40% upper-income. Fifty-three percent (53%) of the county's housing units were owner-occupied, and just 6% of the housing was multi-family. According to 1997 Dunn & Bradstreet data (D&B), Humboldt county had 4,989 businesses, the vast majority with annual sales of \$1 million or less (93%), and employing less than 5 persons (69%). Businesses are concentrated in the service industry (42% by count) and Retail (24%), though the largest employers are Government and Forest Products.

The next largest county by population is Mendocino County, with 1990 population of over 80,000, and over 21M families. Of the families, 20% were low-income, 17% moderate-income, 21% middle-income, and 42% upper-income. Owner occupied housing units represented 56% of the total, and 6% of the housing was multi-family. D&B data for 1997 shows a total of 4,229 businesses, 94% of which had annual sales of \$1 million or less, and 72% employed less than 5 persons. Business distribution among industries is similar to Humboldt County.

Del Norte County population in 1990 was approximately 23,000, with 5,800 families. Low-income families represented 25% of the total, moderate-income were 20%, middle-income 21%, and upper-income 34%. Fifty-seven percent (57%) of the housing units were owner-occupied, and just 3% of the housing units were multi-family. D&B data for 1997 shows 864 businesses, with 95% of annual sales of \$1 million or less, and 71% with fewer than 5 employees. Business distribution among industries is similar to Humboldt County.

Trinity County is the smallest in the assessment area with 13,000 persons in the 1990 census, and 3,713 families. Twenty-eight percent (28%) of the total families were low-income, 21% moderate-income, 21% middle-income, and 30% upper-income. Forty-seven percent (47%) of the housing units were owner-occupied, and only 1% was multi-family. D&B data for 1997 shows 421 businesses in the county, 97% with annual sales of \$1 million or under, and 70% with fewer than 5 employees. The number of businesses in the service industry and retail trade are 36% and 25%, respectively.

We reviewed four recent community contacts performed in the four county area to aid in identifying the credit and service needs of the community. These contacts included a private consultant, and three non-profit agencies assisting in developing small businesses and affordable housing. Credit needs in the community include loans to start-up businesses lacking access to capital, micro-businesses loans (under \$10,000), and business loans for expansion. Affordable housing loans are also a credit need. SRNB offers business loans and affordable housing programs addressing each of these needs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA:

LOAN TO DEPOSIT RATIO

Six Rivers National Bank's average loan-to-deposit (LTD) ratio for the eight quarters ending December 31, 1997 is very good. The volume of residential mortgage and small business lending during the assessment period is excellent.

For the eight quarters reviewed, SRNB'S average outstanding loans represented 75% of the average deposits. This ratio is higher than the average for all banks in non-MSA areas with assets between \$50 million and \$200 million. On average, the loan to deposit ratio for these banks was 68%, and their average size was \$122 million. The only similar bank (asset size) in the assessment area is Humboldt Bank, which had an average LTD ratio for the same period of 70%.

A major factor affecting the LTD ratio was the branch acquisition occurring in the fourth quarter 1997, which increased total assets by approximately \$70 million. Excluding this unusual quarter results in a seven-quarter average LTD ratio of 79%. Another factor to consider is the high volume of mortgage loans sold on the secondary market that are not considered in the LTD ratio. Mortgage loans sold were approximately 47% of the dollar amount originated in the period.

Finally, the volume of business and mortgage loans originated in the assessment period was excellent. Between September 30, 1995

and March 31, 1998 (assessment period), SRNB originated approximately 2,485 loans totaling \$162 million. By dollar volume, 41% were mortgage loans, 51% business loans, and 14% consumer loans.

Another way to put the bank's mortgage and business loan production in perspective is to compare the volumes with those of other institutions reporting HMDA and Small Business loans in the assessment area in 1996. SRNB originated 207 mortgage loans totaling \$22.1 million in 1996. The highest volume HMDA reporter was First Nationwide Bank with 180 mortgage loans, representing 11% market share. For the same period, SRNB originated 286 small business loans totaling \$31 million. This ranked them seventh of the reporting institutions, behind larger institutions including Wells Fargo, NA, Bank of America, NTSB, U.S. Bank of California, Savings Bank of Mendocino, and Tri Counties Bank.

PERCENTAGE OF LENDING IN THE ASSESSMENT AREA

Virtually all of the mortgage and business loans we sampled were located within the bank's assessment area. Our loan sample used throughout this analysis included 57 business loans and 63 mortgage loans. SRNB'S analysis of their lending for the period confirms a very high percentage within the four county assessment area. In 1995, SRNB ranked fourth in the State for SBA small business lending; and in 1996, the bank ranked second. This takes into account the bank's asset size, number of loans, and other criteria. In the same study, SRNB ranked fourth in the State for "micro loans" (under \$100,000).

DISTRIBUTION OF LOANS TO BUSINESSES OF DIFFERENT SIZES

The bank's distribution of loans to businesses of different sizes is reasonable.

Of the 57 business loans sampled, 69% (by number) were to businesses with gross annual revenues of under \$1 million. Approximately 60% of the loans reported in the aggregate were to businesses with gross annual revenues of under \$1 million. Dunn & Bradstreet information on business demographics (1997) shows that 93% of the businesses reporting revenues had annual sales of less than \$1 million. Refer to the table below summarizing these numbers.

LOANS TO BUSINESSES OF DIFFERENT SIZES			
Gross Annual Revenues	Percentage of the Loans Sampled	Dunn & Bradstreet Comparative data (1997)	Aggregate Reporters (1) (1996)
Under \$1 million	69%	93%	60%
Over \$1,000,000	31%	7%	40%

(1) This information is based on the Summary of Small Business Lending (1996) for the counties making up SRNB'S assessment area.

The bank's distribution of loans based on loan size is satisfactory. Thirty-seven percent (37%) of the business loans sampled were under \$100,000 in size and 30% were between \$100,000 and \$250,000. The smaller loan size helps address the needs of the area's small businesses, providing revolving lines of credit, and term loans.

MORTGAGE LOAN DISTRIBUTION TO BORROWERS OF DIFFERENT INCOME LEVELS

The distribution of residential mortgage loans is reasonable.

The LMI distribution of loans is less than the percentage of LMI families residing in the assessment area. Because income is an important aspect of credit-worthiness, it is not unusual that there are fewer loans (proportionally) to LMI families.

DISTRIBUTION OF MORTGAGE LOANS TO INDIVIDUALS OF DIFFERENT INCOME LEVELS		
Income Level of Borrower	Percentage of Sampled Mortgage Loans (by number)	Percentage of Families in each Income Category
Low	5%	21%
Moderate	13%	18%
Middle	22%	21%
Upper	59%	40%

* The aggregate HMDA reporters for 1996 are those institutions reporting mortgage loans subject to the Home Mortgage Disclosure Act, in the four counties comprising the bank's assessment area. Income was not reported on 22% of the HMDA loans.

Management has taken steps to increase the volume of affordable housing loans to LMI families. These programs include Eureka's First Time Homebuyer program and Fannie Mae's Homekeeper program. Under the First Time Homebuyer program, SRNB originated seven mortgage loans to LMI families for \$494M since the fourth quarter 1997. Fannie Mae's Homekeeper program allows low or fixed-income senior citizens to obtain a "reverse mortgage."

GEOGRAPHIC DISTRIBUTION OF LOANS

The distribution of business loans originated is satisfactory compared to the business demographic data. The geographic distribution of the residential mortgage loans is acceptable, though it is not proportional to the tract demographics. The following table depicts the geographic distribution of the sampled business and mortgage loans.

ASSESSMENT AREA GEOGRAPHIC DISTRIBUTION						
Income Level of Tract	Percentage of Mortgage Loans		Distribution of Families (Geographic)	Percentage of Business Loans		Distribution of Businesses by Geography
	By Number	By Dollar		By Number	By Dollar	
Low	0%	0%	0%	0%	0%	0%
Moderate	10%	8%	18%	32%	34%	32%
Middle	83%	84%	68%	63%	65%	61%
Upper	8%	8%	14%	5%	1%	7%
Total	100%	100%	100%	100%	100%	100%

The geographic distribution of business loans is comparable to the number of businesses located in each geographic area. Thirty-two percent (32%) of SRNB'S business loans (by number) were located in moderate-income census tracts, compared to 32% of the businesses located in those tracts.

As the above table shows, when compared to percentage of families residing in moderate-income tracts (18%), the percentage of mortgage loans is relatively low by dollar (8%) and by number (10%). Other comparative data for the mortgage loan distribution includes the percentage distribution of owner-occupied housing and single family units. These are summarized in the table below, and show a similar imbalance in the penetration of moderate-income tracts. However, when compared to the (1996) aggregate distribution of HMDA loans in the assessment area (10%), the bank's lending in moderate-income tracts is more reasonable.

Other Demographic Comparative Data for Mortgage Loan Distribution		
Income Level of Tract	Distribution of Owner-Occupied Housing	Distribution of Single-Family Housing Units
Low	0%	0%
Moderate	16%	21%
Middle	69%	66%
Upper	15%	13%

COMMUNITY DEVELOPMENT (CD) ACTIVITIES

SRNB'S volume of community development loans and qualified investments is notable, and community development services were strong. In addition to the direct mortgage and business lending noted above, the bank's community development activities address the credit needs of the community.

The following table provides a summary of the community development loans and qualified investments for the period, most of which originated in 1996 and 1997. Although we have no independent comparative data for community bank's CD activities, the volume of

loans and qualified investments represented a significant portion (56%) of SRNB's equity capital as of year-end 1997.

Summary of Community Development (CD) Activities			
Category of CD Activity	Number	Dollar Volume (000's)	Type of Community Development
CD Loans	8	\$9,239	Primarily revitalize/stabilize LMI tracts through job creation
Qualified Investments	7	\$1,526	Primarily small business development and revitalize/ stabilize as above
CD Services	10 events	127 hours	Small business, LMI services, and LMI Housing

One community development activity noted above combined direct lending (\$2.4 million) and investment in a Revenue Obligations (\$1.5 million). These qualify as community development activities based on their revitalizing/ stabilizing affect through job creation. The Eureka Redevelopment Agency has guaranteed \$1 million of the loan funds. The harbor area directly benefitting from the dredging effort is an "Enterprise" zone.

The funds are specifically targeted for dredging Humboldt Bay harbor to allow heavier barges and shipping, considered essential to the growth of the area timber industry. The job creation and stabilization from the project will directly impact the local timber industry, which primarily employs unskilled workers. Other businesses benefitting from the project include local retail, hotel, and restaurants, which also provide unskilled employment.

DISCRIMINATORY PRACTICES

We conducted a concurrent fair lending examination and found no evidence of discriminatory lending practices. The bank complies with the provisions of the anti-discrimination laws and regulations.

REVIEW OF COMPLAINTS

There were no written complaints associated with the bank's performance under the CRA.