



## **INTERMEDIATE SMALL BANK**

---

Comptroller of the Currency  
Administrator of National Banks  
Washington, DC 20219

---

### **PUBLIC DISCLOSURE**

**October 23, 2006**

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

**First National Bank of Northern California  
Charter Number 15089**

**975 El Camino Real  
South San Francisco, CA 94080**

**Comptroller of the Currency  
San Francisco Field Office  
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.**

The Lending Test is rated Satisfactory.

The Community Development Test is rated Satisfactory.

- The average loan-to-deposit ratio for the last 12 quarters was 78% and is considered satisfactory.
- The concentration of lending within the assessment area is excellent with 84% of the bank's small business loans extended in the bank's assessment area.
- The distribution of small business loans by borrower income and geography throughout the bank's assessment area is reasonable and considered satisfactory.
- The bank has an adequate level of community development loans, services, and investments.

## **SCOPE OF EXAMINATION**

This Performance Evaluation (PE) assesses information since the previous examination dated July 14, 2003. Business loans are the primary focus of First National Bank of Northern California (FNB). The evaluation period for our review of small loans to businesses covers the period from January 1, 2004 through June 30, 2006. Our review of this bank's Community Development loans covers the periods from July 15, 2003 through June 30, 2006.

## **DESCRIPTION OF INSTITUTION**

FNB is an intrastate community bank established as a national charter in 1963. The bank is headquartered in South San Francisco, California. The bank's primary business is servicing the banking needs of individuals and small to mid-sized businesses within San Mateo and San Francisco Counties, its Assessment Area (AA). FNB is a subsidiary of FNB Bancorp, a one-bank holding company formed in March 2002.

FNB operates thirteen full service branches in the San Francisco Metropolitan Area. The bank operates two branches, including the main office, in the city of South San Francisco. The bank also operates two branches in Pacifica and two branches and one night depository facility and ATM in San Francisco. Other branches are located in Colma, Daly City, Half Moon Bay, Millbrae, Pescadero, Redwood City, and San Mateo.

As of June 30, 2006, FNB had total assets of over \$562 million and total gross loans of close to \$389 million. Loans are centered in business lending concentrated within its AA.

Table 1

<i>Types of Loans Outstanding</i>		
<b>Loan Type</b>	<b>\$000s</b>	<b>% of Portfolio</b>
Commercial Real Estate	246,080	63%
Construction	29,802	8%
Line of Credit – RE	17,442	4%
Commercial Installment	15,301	4%
HELIC	14,975	4%
Unsecured Lines	14,837	4%
Other Lines	14,753	4%
Commercial – Int. Only	11,251	3%
Other Loans	24,282	6%
<b>Gross Loans:</b>	<b>388,723</b>	<b>100%</b>

\*Source: Call Report and FNB's Concentration Risk Report as of 6/30/06

The bank received a rating of “Satisfactory” at the prior evaluation dated July 14, 2003. There are no legal or financial impediments to the bank’s ability to help meet the credit needs of the community.

## **DESCRIPTION OF SAN MATEO AND SAN FRANCISCO COUNTIES IN THE SAN FRANCISCO METROPOLITAN AREA**

The bank’s AA has been designated as San Francisco and San Mateo Counties in the San Francisco Metropolitan Area. There are 331 census tracts within the AA; 26 low income tracts, 79 moderate income tracts, 129 middle income tracts, 95 upper income tracts, and 2 tracts identified as NA. The AA meets the requirements of the regulation.

The following table shows the demographics of the assessment area according to the 2000 U.S. census data:

<b>Demographic Information for First National Bank of Northern California's Assessment Area: San Francisco and San Mateo Counties</b>						
Demographic Characteristics by Number	#	Low	Moderate	Middle	Upper	NA *
Geographies (Census Tract #)	331	26	79	129	95	2
Demographic Characteristics by %	#	Low % of #	Moderate % of #	Middle % of #	Upper % of #	NA* % of #
<b>Geographies (Census Tract %)</b>	331	7.85%	23.87%	38.97%	28.70%	0.60%
<b>Population by Geography</b>	1,483,894	7.46%	24.42%	42.59%	25.53%	0.00%
<b>Owner-Occupied Housing by Geography</b>	607,103	1.52%	15.01%	46.49%	36.98%	0.00%
<b>Business by Geography</b>	119,054	3.15%	22.36%	43.36%	31.13%	0.00%
<b>Farms by Geography</b>	1,782	2.64%	24.64%	46.30%	26.43%	0.00%
<b>Family Distribution by Income Level</b>	319,743	6.02%	21.27%	43.93%	28.78%	0.00%
<b>Median Family Income</b>		\$79,614	<b>Median Housing Value</b>		\$496,672	
<b>Updated HUD Adjusted Median Family Income</b>		\$88,450				

(\* ) The NA category consists of geographies that have not been assigned an income classification.  
 Source: 2000 U.S. Census and 2006 HUD updated MFI.

The total population of the assessment area is 1,483,894. The majority of businesses are located in middle-income census tracts. Owner-occupied housing represents 45% of all housing units in the assessment area. Less than 17% of the owner occupied units are located in low- and moderate- income census tracts reflecting a low rate of home ownership in these tracts.

FNB faces strong competition from 63 banks operating within the assessment area. FNB ranks 17th in deposit market share with 0.45%. The four largest banks hold a total of over 73% of the deposit market share. The major competing institutions include Bank of America, N.A.; Wells Fargo Bank, N.A.; Citibank West, F.S.B.; and Union Bank of California, N.A.

Community contacts indicated a need for affordable housing. The most difficult funding for affordable housing developers in this area is land acquisition money, followed closely by predevelopment funding.

## **CONCLUSIONS ABOUT PERFORMANCE CRITERIA**

### **Lending Test - Satisfactory**

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

The loan-to-deposit ratio is reasonable (considering seasonable variations and taking into account lending-related activities) given the bank's size, financial condition, and assessment area credit needs. The last CRA examination was conducted in July 2003. The average quarterly loan-to-deposit ratio of the 12 quarters from July 2003 through June 2006 was 78% as compared

to peer at 84%.

### Lending in Assessment Area- Outstanding

The bank's lending in the assessment area exceeds the standard for satisfactory performance. We used internal bank reports, which we verified during our review, to assess performance.

<b>Lending Within Assessment Area (AA)</b>				
	<b># of Loans</b>	<b>% By Number</b>	<b>Dollars (000's)</b>	<b>% By \$</b>
Loans In AA	584	84%	\$98,000	80%
Loans Out of AA	113	16%	\$24,342	20%
Totals	697	100%	\$122,342	100%

Source: All Small Business Loans originated from January 1, 2004 to June 30, 2006

A substantial majority of the loans originated by the bank are within their designated assessment area. The bank originated 584 loans, or 84% of the total small business loans originated, to borrowers within the assessment area. The total dollar volume of loans granted within the assessment area was 80%.

### Lending to Businesses of Different Sizes- Satisfactory

FNB's responsiveness to the small business needs in the AA is adequate in relation to its size and capacity. Businesses with annual revenues of \$1 million dollars or less are deemed to be small businesses. The percentage of small businesses within FNB's AA was 62% in 2005, based on 2000 census data.

<b>Lending to Business of Different Sizes</b>						
<b>Gross Revenues</b>	<b>Businesses in AA</b>		<b>Number of Loans Originated within AA</b>		<b>Dollar Volume of Loans Originated within AA</b>	
	<b># of Businesses</b>	<b>% of Businesses</b>	<b># of Loans</b>	<b>% of Number</b>	<b>Dollar Volume (000's)</b>	<b>% of \$ Volume</b>
≤\$1,000,000	85,388	62%	289	49.5%	\$42,199	43.1%
>\$1,000,000	8,610	6%	279	47.8%	\$55,679	56.8%
Not reported	43,600	32%	16	2.7%	\$122	0.1%
Totals	137,598	100%	584	100%	\$98,000	100%

Sources: 1) 2005 Business Geodemographic Data

2) All Small Business Loans originated within AA from January 1, 2004 to June 30, 2006

Our analysis of business loans in this assessment area indicates the bank’s effort to lend to small businesses lags the area business mix. The number of loans and the dollar distribution to small businesses are below area demographics. The resulting percentage of loans to small businesses by number and dollar volume was 49.5% and 43.1% respectively.

When comparing the distribution of borrowers to the demographics of the AA, as shown in the chart above, the bank’s penetration among businesses of different sizes falls short of area demographics. However, competition for small business loans in the AA is strong, with a significant number of non-bank competitors and large regional banks. The top ten ranked lenders in the AA account for 91% by number and 57% by dollar of small loans in the AA. When framed in this context, FNB’s responsiveness to the small business needs in the AA is adequate in relation to its size and capacity.

**Geographic Distribution of Loans – Satisfactory**

FNB’s geographic distribution of loans to small businesses is adequate.

As shown in the table below, the geographic distribution of business loans throughout the assessment area is below area demographics. The bank's distribution of business loans by the percentage of number of loans and dollar volume of loans originated in the low- income geographies was 7.4% and 10.4% respectively for the period reviewed. The number and dollar volume of loans in low-income tracts was significantly below area demographics of 17.54%. And, the bank’s distribution of business loans by number of loans and dollar volume of loans originated in moderate-income geographies was 18.7% and 20.7% respectively, more closely mirroring area demographics of 21.15%.

<b>Geographic Distribution of Business Loans</b>						
<b>Tract Income Type</b>	<b>Businesses in Assessment Area</b>		<b>Number of Loans Originated within AA</b>		<b>Dollar Volume of Loans Originated within AA</b>	
	# of Businesses	% of Businesses	# of Loans	% of Number	Dollar Volume (000’s)	% of Dollar Volume
Low	24,140	17.54%	43	7.4%	\$10,165	10.4%
Moderate	29,106	21.15%	109	18.7%	\$20,316	20.7%
Middle	45,713	33.22%	353	60.4%	\$52,118	53.2%
Upper	38,461	27.95%	79	13.5%	\$15,401	15.7%
NA	178	0.13%	0	0.0%	\$0	0.0%
Totals	137,598	100%	584	100%	\$98,000	100%

Source: 2005 Business Geodemographic Data and all Small Business Loans originated within AA from January 1, 2004 to June 30, 2006

Of the two counties in the bank's AA, FNB has a stronger presence in San Mateo County where only two of the 26 low-income census tracts are located. And although one of the branches in San Francisco County is in a low-income tract, FNB has not been successful in penetrating this county due to strong competition from regional financial institutions. When taking this into account, FNB's geographic distribution of loans to small businesses is considered adequate.

### **Responses to Complaints – Not Rated**

This assessment factor is not applicable. FNB has not received any complaints about its performance in helping to meet assessment area needs during this evaluation period.

### **Community Development Test - Satisfactory**

FNB's community development (CD) performance demonstrates adequate responsiveness to the community development needs of its AA through community development loans, qualified investments, and community development services, as appropriate, considering the bank's capacity and the need and availability of such opportunities for community development in the bank's assessment area.

FNB originated five loans totaling \$6.8 million meeting the regulatory definition of community development loans during the evaluation period. Examples include:

- The bank made a \$2 million loan to refinance and improve a 281-bed Medi-Cal nursing home that serves low-income patients.
- The bank made a \$2.15 million loan for permanent working capital to a business located in a moderate-income tract. The business was able to preserve all jobs as a result of the loan. Approximately 51% of the workforce are low- and moderate-income families.
- The bank made two multi-family dwelling real estate loans. Both properties were located in moderate-income tracts.

FNB's CD investments reflect an adequate responsiveness to the community's needs. The bank's investments include affordable housing and small business lending. During the evaluation period, the bank's qualified investments represented a total of \$3.1 million. Of this total, \$971M was made during this current period. An example is the bank's \$931,736 investment in a statewide tax credit fund for affordable housing in the State of California. Although the properties are not located within FNB's AA, two of the four properties are within commuting distance of the bank's AA.

FNB has thirteen full service branches and one night depository facility and ATM in their AA. Of the thirteen branches, two are located in low-income census tracts, three are in moderate-income census tracts, six in middle-income census tracts, and two in an upper-income census tract. And, the night depository facility and ATM is located in a moderate-income census tract. The distribution of the bank's branch locations exceeds the population for both the low-income and moderate-income geographies.

FNB's performance in providing CD services in the AA is good. Bank employees have donated a good amount of service time through their involvement in providing technical assistance in financial matters to various community organizations and programs within the AA.

### **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.